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ABSTRACT

This is a study of the development and passage of employment legislation between 1973 and 1977. A primary focus is on how the Comprehensive Employment and Training Act (CETA) became law. The author is former Assistant Secretary of Labor and Administrator of the Employment and Training Administration, 1973-1977. The first of four chapters traces Congress and the administration's four years of conflict over manpower reform. The conflict culminates in President Nixon's signing of the 1973 CETA bill. Three outcomes of the 1973 CETA legislation are identified: (1) major decentralization was accomplished; a strong federal role was preserved; (2) Title I authorized a decategorized program; Title III added categories for Indians and migrants and retained an emphasis on youth; and Title IV continued the Job Corps; and (3) a separate, identifiable program for public service employment was included in a comprehensive bill. Chapter 2 discusses the effects of the 1974 oil embargo on unemployment. The corresponding period of inflation and recession and the resulting emergency legislation are examined. Chapter 3 reports on the 1974 passage of the unemployment insurance program. The final chapter reviews the events which led to the assignment of Title II money to the Title VI public service employment (PSE) program. (CSS)

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Developing Manpower Legislation

A Personal Chronicle

WILLIAM H. KOLBERG

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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FOREWORD

This volume is the personal story of a government official who played a major role in shepherding the Comprehensive Employment and Training Act (CETA) and related programs through the executive and legislative branches of government--at a time when political control over the two branches was divided and the Watergate episode was generating unprecedented turmoil.

The Committee on Evaluation of Employment and Training Programs of the National Research Council has, since 1974, been monitoring the economic, social, and political consequences of the decentralization of manpower programs under CETA. Several reports were published by the National Academy of Sciences in 1976* and the final study is now being completed. To describe the origins of the legislation and capture the flavor of the controversy that accompanied it, the Committee, with Ford Foundation support, commissioned William H. Kolberg, former Assistant Secretary of Labor, to recount his experiences in the long battle over manpower reform legislation.

Mr. Kolberg's account is not that of a disinterested observer; the Committee is fully cognizant of his role as a principal protagonist. And although the author's views do not necessarily reflect the opinions of the Committee, we believe that this story contributes to an

*Mirengoff, William and Lester Rindler, *The Comprehensive Employment and Training Act: Impact on People, Places, Programs.* An Interim Report; Mirengoff, William, ed., *Transition to Decentralized Manpower Programs: Eight Area Studies.* An Interim Report; and Lipsman, Claire K., *The Comprehensive Employment and Training Act: Abstracts of Selected Studies.*

understanding of the genesis of CETA and supplements the work done by the Committee. Political scientists will find this paper an intriguing case study of the clash between the will of a Democratic Congress and the determination of a Republican administration and of the maneuvering that led finally to the enactment of CETA; students of manpower programs will also be interested in the author's insights into the ideological and pragmatic considerations that formed the basis for the reform of the nation's employment and training programs.

Philip J. Rutledge, *Chairman*
Committee on Evaluation of
Employment and Training Programs

PREFACE

This book is a study of the development and passage of employment legislation between 1973 and 1977, the centerpiece of which is the story of how the Comprehensive Employment and Training Act--CETA--became law. Other parts of this study cover how the recession of 1974-1975 caused the alteration of both CETA and unemployment insurance laws.

CETA was landmark legislation. It grew out of the first decade of the nation's experience with manpower programs and created a new intergovernmental delivery system for providing training and employment services. Now, five years later, the acronym, CETA, has entered the lexicon of our everyday language. CETA has become an accepted term standing for the process by which the federal, state, and local governments provide training and employment. "CETA jobs," "CETA people," "CETA operations" --these expressions have become commonplace in communities across our nation. By July 18, 1977, President Carter during a press conference described his "CETA training programs" expansion with every expectation that he would be well understood by all.

As the Assistant Secretary of Labor and the Administrator of the Employment and Training Administration (formerly the Manpower Administration) from 1973 to 1977, I was in a key position to participate in and to observe the executive policy making and legislative processes at work. To a participant, these processes are invariably exciting, puzzling, and frustrating, but never do they lose their fascination. As with all "games," events in these processes are shaped by a mixture of planning, hard work, and tenaciousness, as well as power, personality interaction, and luck.

The object of the policy and legislative game is not only to "win," but, as often, to recognize what constitutes winning. Since players in this game usually ascribe all their motives and actions to "the public interest," any scorecard is highly loaded and subjective.

This study has been written both for practitioners in the employment and training field and for general students of government. I have long felt that there is a paucity of specific case study material to describe how public policy evolves and is implemented. Such material is necessary both for teaching students of public administration and for informing practitioners so that governmental processes can be improved.

The period covered by this study is unique. "Watergate" was already a significant political factor when the story of CETA began. During the ensuing 18 months, conducting the most routine executive-legislative relationships reached a dangerous low point. And after the resignation of President Nixon, the new administration of President Ford was faced with the most severe economic recession since the depression of the 1930s. The Department of Labor's Employment and Training Administration, for which I was responsible, was in the very eye of this economic storm. At the height of this period, it was our job to pay unemployment compensation to 14 million Americans and to provide job-finding assistance and training or public jobs for millions more. During this period, six major substantive pieces of employment and training legislation were passed. This book chronicles the events surrounding the development and passage of five of the six acts. (The basic unemployment insurance amendments of 1976 are not covered because they were not directly linked to CETA or the recession.)

During this same period I worked for and with three Secretaries of Labor: Peter J. Brennan, John T. Dunlop, and W. J. (Bill) Usery. As this book will show, they gave me an unusual measure of freedom to carry out my responsibilities and yet were unfailing in providing guidance and support at crucial times.

Students of manpower history should not look to the book for detailed background about the development of manpower programs prior to 1973. Numerous volumes have been written on this subject (particularly the excellent "Policy Studies in Employment and Welfare," edited by Dr. Sar A. Levitan and Dr. Garth L. Mangum and published by the Johns Hopkins University Press). A specific precedent to this study is "The Politics of Comprehensive

Manpower Legislation," written by Roger H. Davidson. Mr. Davidson's excellent study covers the legislative attempts of the 91st and 92nd Congresses, from 1969 to 1972, to reform the manpower system.

Most political officials in the executive branch come into the government from private life, serve for a few years, and return to their chosen occupation. I became a political executive after serving 22 years in the career service of the federal government. Thus, this story is both handicapped and benefitted by having as its author a Washington "insider."

When I became Assistant Secretary, I was no stranger to the manpower field. As a career official in the Bureau of the Budget, I had been in charge of the labor and manpower area from 1963 to 1967. I had then spent six months as the executive director of a task force set up by President Johnson to study and recommend to him measures to deal with urban unemployment problems. In 1968 I joined the staff of the Manpower Administration of the Department of Labor under Assistant Secretary Stanley Ruttenberg and served him and Secretary Wirtz in various capacities, ending up in 1969 as the associate manpower administrator for policy, planning, research, and evaluation. When the Nixon administration took office, I continued in that capacity under Secretary George Shultz and Assistant Secretary Arnold Weber until Secretary Shultz was named to be the director of the new Office of Management and Budget (OMB, replacing the Bureau of the Budget), and I was named by Director Shultz to a new position as the assistant director of the Office of Management and Budget in charge of field operations and special projects. During my two years at OMB, I became fully convinced of the need for and efficacy of an intergovernmental system in which the basic planning and operation of domestic programs are placed in the hands of state and local governments with the federal government retaining an overall role of policy, oversight, and evaluation. At OMB, however, I was only generally involved with manpower programs and had practically no connection with the major policy deadlock that had developed between the administration and the Congress.

Two caveats require statement here. First, this is primarily my story, limited by Kolberg-brand objectivity. Second, one year does not a Gibbon make. In time, some of my views shall most certainly alter. For the present, I have attempted to correct some of the myopia and to broaden some of the view. Dozens of those involved in the events recorded here were interviewed by me; their

insights, their additional experiences, and their memories were extensively sought. However, those with whom I spoke bear no responsibility for what is written here, and, if they were to record the same events from their own perspective, I am sure some of those events would look different.

I am particularly appreciative of the time, assistance, and insights given me by former President Gerald R. Ford; former Secretaries of Labor Peter Brennan, John Dunlop, and Bill Usery; former Under Secretaries of Labor Richard Schubert and Michael Moscow; Congressman Albert Quie and former Congressmen Dominick Daniels and Marvin Esch; former Deputy Director of the Office of Management and Budget Paul O'Neill; former Assistant Secretary of Labor for Manpower Malcolm Lovell; former counsel to the Senate Subcommittee on Employment Richard Johnson; and Associate Director of Legislation for the AFL-CIO Kenneth Young and his associate Robert McGlotten.

Special thanks go to William Hewitt, Administrator, Office of Policy, Evaluation, and Research, and Bill Langbehn, Chief, Division of Legislation and Program Development, both of the Labor Department's Employment and Training Administration. Each was intimately involved in most of the events covered in this book, and they have given freely of their time and their records to make this story as accurate as possible.

Finally, I am indebted to the Ford Foundation for the grant that made this study possible and to the National Research Council, under whose auspices the study was undertaken. Mr. William Mirengoff, study director, Committee on Evaluation of Employment and Training Programs, was directly responsible for monitoring this effort and I am deeply appreciative of his assistance and support.

I. ACHIEVING MANPOWER REFORM--THE COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

Background--Four Years of Frustration and Conflict

The events surrounding the passage of the Comprehensive Employment and Training Act (CETA) can be understood best when viewed in the light of the immediately preceding four years of continuous and often bitter conflict between the Congress and the administration over manpower reform.

The basic manpower system of the 1960s was created by the 1962 Manpower Development and Training Act (MDTA) and the 1964 Economic Opportunity Act (EOA). These two important pieces of legislation provided the basis for a strong, new effort by the federal government to operate a variety of manpower, training, and employment programs.

These programs were designed to assist unemployed and underemployed persons in obtaining and retaining unsubsidized employment. Both pieces of legislation provided broad authority for varied programmatic approaches to alleviate structural unemployment, including classroom training, on-the-job training, work experience, supportive services, and transitional public service employment. Typically, the programs were targeted on groups in the labor force most in need--the economically disadvantaged, minorities, youth, welfare recipients, and older workers. The programs were directed by the federal government, which contracted with thousands of individual public and private entities to provide services to recipients. Dozens of different programs evolved, each with its own staff, clientele, and rules and regulations and, often, with little regard for coordination with other programs.

By 1969, the nation's developing concern over poverty and the disadvantaged had resulted in the growth of these programs from their small beginnings in the early 1960s to a total size of $2.5-$3 billion. More than two dozen

separate categorical programs were being operated by the federal government, and the federal government was contracting directly with some 10,000 separate sponsors to carry out the programs. At the local level, there were often 30-40 separate programs with different sponsors--uncoordinated, overlapping, and intensely competitive. The people for whom the programs were intended were faced with an unintelligible maze. Although many efforts had been made to coordinate these programs, the absence of a clear legislative mandate made it impossible to effectively coordinate the actions of the federal officials to bring order to the chaos at the local level.

By the beginning of 1969, a consensus developed among manpower professionals that a new service delivery system was needed and that new national legislation was required for such a system. Early in the 91st Congress, manpower reform bills were introduced in both the House and the Senate. The Nixon Administration followed suit by developing its own manpower reform bill, submitting it to the Congress in August of 1969.

All of these bills had certain common features, which reflected the growing consensus. First, every bill *consolidated* the existing authorities of the MDTA and EOA into one act. Second, each bill *decentralized* the manpower delivery system so that state and local governments were given much of the authority to plan and operate manpower programs. Third, each bill *decategorized* programs so that each state or local government was given a block of funds with which to plan and operate programs especially designed for the needs in its community.

The terms *decentralization* and *decategorization* became shorthand descriptions for key concepts in manpower reform. The shifting definitions of these concepts have been at the center of the vigorous debates over manpower policy to this day.

Decentralization involves transferring more power and authority from the federal government to the state and local governments. There was a general consensus in 1969 that decentralization was desirable, but the degree to which control should be devolved and the degree to which power should be retained by the federal government would have to be defined in a set of detailed specifications. The search for this definition will be a continuing theme in this study, and it will never be finally and permanently decided. It is a crucial and continuing subject of concern to everyone because it goes to the heart of the federal system.

The term *decategorization* also stands for a central concept in the provision of these public manpower services: local power to decide who shall receive which publicly financed services without any prescribed categories of recipients or programs being defined by the federal government. Under the system operated until 1969, the federal government specified by law and regulation who would be eligible for specific training and employment services. Under a decategorized system, these key public priority determinations would be decided at the state and local level. Again, specific definition of this concept is central to manpower policy today as it was in 1969. The proponents of federal designation and targeting for beneficiaries argue that only by federal statutory definition can the public be assured that scarce resources are targeted to those in the population most in need of services. The proponents of state and local designation of beneficiaries argue that only officials at the state and local level know the specific labor force problems in a particular area and that broad power and flexibility are needed by those officials to tailor programs to meet local conditions.

In addition to these two basic concepts, a third concept has become central to manpower reform debate--the role of public service employment. Although subsidized work experience programs in the public sector had been authorized in both the MDTA and EOA, it had always been understood that these jobs were transitional and were provided so that recipients could develop a work history on the way toward private, unsubsidized employment. Beginning with the debate over manpower reform in 1969, the proponents of public service employment began to argue that training and related services were not enough for a well-rounded, federal manpower effort and that specific legislative authority should be granted for the creation of public jobs both to provide useful on-the-job training in periods of full employment and to increase the supply of jobs when there was a deficit of employment opportunities in the private job market during cyclical downturns.

The debate over public job creation has always had an overstated ideological ring. The strong proponents of publicly created jobs typically argue that the government has an obligation to provide employment for all its employable citizens who are unable to find jobs in the private sector. The opponents raise the specter of the WPA-type massive public job creation efforts of the 1930s,

characterize it as "make-work" and unnecessary "leaf raking," point to the tremendous costs, and recite dangers inherent in large numbers of citizens becoming dependent on public jobs.

These three basic concepts then, *decentralization*, *decategorization*, and *public service employment*, became in 1969 and remain to this day the basic concepts around which the continuing debate has been waged over the shape of the nation's manpower programs and policies.

During 1969 and 1970, the 91st Congress struggled with these issues and finally passed and sent to the President a manpower reform bill in December of 1970. The advocates of decentralization had generally been successful: the bill provided for a decentralized system with a strong federal review and oversight role, but with basic planning and operating authority devolving to state and local governments. On the issue of decategorization, the bill went a long way toward removing federally defined programs and categories of recipients.

On the issue of public service employment, however, there was total disagreement. President Nixon vetoed the bill largely because of his opposition to its public service employment provisions, and he used time-honored ideologic terms to describe the bill: "dead end jobs in the public sector" and "WPA-type jobs are not the answer." Although the President's veto met with a barrage of criticism, it was sustained in the Senate.

Thus, the first attempt at basic national reform of the manpower system floundered on the issue of public service employment. The issue had been cast in harshly partisan and ideological terms by both the Democratic majority in Congress and by the Republican administration, and the first two years of manpower reform effort ended on a note of bitterness and recrimination that was to persist for years to come.

Early in 1971 President Nixon presented to Congress and to the country his "New Federalism" program. It emcompassed not only a general revenue sharing program for the states and the cities but also a series of what were termed "special revenue sharing" programs, in which broad functional areas of federal activity, including manpower, would largely be turned over to the state and local governments through major decentralization. This new bill for manpower reform was significantly different from the administration bill submitted in 1969. Under the "special revenue sharing" concept, the federal government would have a substantially diminished role in program administration,

review, and oversight, with the states and cities almost accorded carte blanche to plan and operate manpower programs. This bill found few supporters in the Congress. Not only did the bill fail to satisfy the supporters of public service employment, but now the administration's approach on the issues of decentralization and decategorization went much too far for most members of Congress. In short, on the three major issues of decentralization, decategorization, and public service employment, the Republican administration and the Democratic Congress were now diametrically opposed.

The administration's bill failed to receive any serious consideration in Congress but was successful in planting a new concept called "revenue sharing." To the Democratic majority in the Congress, "revenue sharing" meant that, to use the colloquial expression, "the federal government would just put the money on the stump and run."

Unemployment rates began to rise early in 1971 and the Democratic Congress saw this rise as another opportunity to push public service employment. Instead of giving any consideration to the President's "special revenue sharing" proposal, the Congress instead passed a categorical program of public service employment--the Emergency Employment Act of 1971. As unemployment reached a nine-year high of 6.2 percent, the President, faced with the prospects of having to veto another manpower bill and possibly not having the veto sustained, signed the bill in 1971, just six months after vetoing the much more acceptable manpower reform bill that had been sent to him in December 1970.

With a temporary public service jobs program now on the books and faced with the implacable opposition of the Nixon Administration on the issue of decentralization, Congress put aside any further moves for basic reform of manpower programs. Instead, the Congress passed a simple one-year extension of the MDTA in April 1972; 1972 was an election year and, with the Democratic Congress and a Republican administration deadlocked on basic issues, neither party stood to gain much from resuming the conflict.

Thus, as 1972 ended, the manpower reform picture included: (1) a basic disagreement between the administration and Congress on the proper degree of federal direction of, oversight of, and control over manpower programs--the decentralization issue; (2) a basic disagreement between the administration and Congress on the usefulness and need for public service employment; and (3) a less basic but still important disagreement over the degree to which the

federal government should specify the classes of recipients for specific manpower services--the decategorization issue. While the basic issues remained unresolved, all participants in the continuing debate were well aware that both pieces of basic authorizing legislation, MDTA and EOA, were due to expire during the 93rd Congress. Therefore, the debate was only temporarily suspended, to be resumed again after the Presidential election of 1972. The events of the four years had destroyed the bipartisan spirit and approach that had existed from 1962 to 1969; manpower reform had become harshly partisan and ideological, and feelings of distrust, betrayal, and anger had become common.

Despite the feelings and attitudes among the bruised combatants in the executive branch and Congress, there was a developing consensus among professionals in manpower, both within and outside the government, that basic reform could no longer be postponed and that a common ground would have to be found. The manpower system was too crucial to be left for long in a deadlocked position.

The President Sets the Stage

It had become clear to the Nixon White House by early summer 1972 that the "New Federalism" program, particularly the "special revenue sharing" bills, were going nowhere in the Congress. At a special meeting at Camp David in June 1972, the President and his top White House advisers met to develop new strategy for achieving their goals. Expecting a resounding reelection victory, the President and his advisers decided to pursue the goals of revenue sharing through whatever means were available short of legislative action. The strategy would be to go as far as current law allowed in decentralizing the control of government programs to the states and localities. This was to be a general strategy, to cover not only the manpower programs but also housing programs, education programs, and other major areas of federal activity in which the President had hoped to devolve power to the states and localities.

The leadership in the Department of Labor and the White House had been at odds over the concept of special revenue sharing for some time, and the new general strategy decision on the part of the White House was not conveyed to the Labor Department. Assistant Secretary Lovell, supported by Secretary Hodgson, had argued for some months (and continued to argue into fall 1972) that the revenue sharing concept went too far and a better balance should

be struck between the powers of the federal government and those of the states and localities. Without knowledge of Presidential strategy, the Department continued to prepare and present to the White House a new manpower reform bill that might have some chance of passage. Then, soon after his landslide reelection for a second term, President Nixon asked for the resignation of most of the top Presidential appointees, including the Secretary of Labor and his top assistants.

The President's legislative and budgetary policies for the ensuing year are always decided in December and January before the President sends his state of the union and budget messages to Congress late in January. In most "normal" years the development of the President's program is an amalgam of White House and departmental policy positions, but in fall 1972, with departmental leaders leaving the government at the request of the President, the entire policy and strategy leadership for budgetary and legislative matters passed to the White House.

The President had signaled his intentions during the campaign to make substantial cuts in domestic programs, and the Office of Management and Budget proceeded to carry out this policy in shaping the budget for fiscal 1973. Manpower programs were to be no exception to this cutback. The efficacy of manpower programs had been under attack in the administration during 1972, and doubts about the programs were shared by certain top officials of the Labor Department.

The record is clear that both the legislative strategy--to achieve manpower reform without legislation--and the budgetary strategy--to make a substantial cut in manpower program resources--were devised and directed by the White House. Both actions were part of an overall Presidential second-term strategy: to proceed with a major decentralization of the federal government's domestic programs and to make major cuts in those programs. The Department of Labor had only minimal involvement in these decisions.

The President's budget message for fiscal 1974 stated the intention of the administration to accomplish manpower reform by administrative action. The President stated that "during the next sixteen months, administrative measures will be taken to institute this needed reform of the manpower system within the present legal framework." The President, therefore, proposed a simple extension of the MDTA and opposed a continuation of the Emergency Employment Act, both due to expire on June 30, 1973. In addition, the budget called for an overall cut of 10

percent in the manpower programs, largely by phasing out the public employment program in fiscal 1974, but also by cutting other categorical programs, such as the Job Corps.

The President's decision to move gradually to a new manpower system through adapting the current legislative authorities was not inconsistent with actions that were already under way in the Manpower Administration of the Department of Labor. For some years, the Department had been experimenting with various mechanisms for devolving planning and operating authority to the local level. The Concentrated Employment Program of the late 1960s was the first attempt to place program authority in local hands. In addition, starting in 1969 the Manpower Administration had been giving grants to governors and to mayors of major cities for manpower planning activities.

It should be emphasized that, starting in 1969 and continuing through the passage of CETA in 1973, the strategy of the Manpower Administration was to develop a clientele of state and local officials who would support the goal of decentralizing manpower programs. This constituency was of some importance in the congressional consideration of the manpower reform legislation of 1969 and 1970 and became a major force in 1971 and 1972. The Emergency Employment Act, which for the first time specified that state and local governments would be "prime sponsors" and deliverers of the public employment programs, served to cement this developing constituency.

Beginning in 1972, the Manpower Administration had begun a number of experiments in the delivery of manpower services, called the Community Manpower Programs. The Manpower Administration made block grants of funds directly available to seven state and local governments--Albuquerque, Omaha, Seattle-King County, Miami-Dade County, Lucerne County (Pennsylvania), and the states of Utah and South Carolina--for their use in planning and carrying out a full range of manpower services. It was the intention of the Manpower Administration to use these prototype experiments as one avenue in implementing the President's policy to proceed with manpower reform within the current legislative structure.

The Manpower Administration began in February and March to carry out the President's policy by preparing detailed plans for effecting what was then called manpower revenue sharing (MRS) through administrative actions under MDTA and EOA. By mid-March, the regional offices of the Manpower Administration had held preliminary meetings with state and local "prime sponsors" to explain the plans.

The specific plan for effecting manpower revenue sharing administratively was transmitted to the White House for review and clearance late in March 1973.

Early in 1973 President Nixon named Peter Brennan to succeed James Hodgson as Secretary of Labor. In March, President Nixon nominated me to be Assistant Secretary of Labor in charge of the Manpower Administration. I was confirmed by the Senate and sworn into office on April 13, 1973.

My first action upon taking office in early April was to take charge of the planning for achieving manpower reform through administrative means. The President's policy was clear and unequivocal--to move as far and as fast as possible toward manpower reform within current legislative authority--and that policy was fully consistent with my own personal view that we should move directly to devolve a measure of power to state and local control. The actions that had already been taken to set up the Community Manpower Programs seemed very sensible and important, and we decided to move ahead on that front as rapidly as we possibly could. In addition, we needed an overall framework within which all our actions and developing policies could be spelled out. For this reason we began developing an overall set of administrative regulations to detail the way we intended to move in gradually shifting manpower authority to the local level. On April 6, 1973, I dispatched my first memo to Paul O'Neill, Associate Director of the Office of Management and Budget (OMB), setting forth options for final decisions on five basic issues that needed to be decided before the regulations could be put into final form.

As Associate Director of OMB for human resources programs, Paul O'Neill was in charge of the budgetary and legislative decisions affecting the Department of Health, Education, and Welfare, the Department of Labor, and the Department of Housing and Urban Development.[1] O'Neill's name appears many times in this chronicle because over the four-year period covered by this story, he was consistently the single most powerful and influential adviser to both

[1]He and I had worked together on several projects even before I went to OMB as Assistant Director; we were colleagues and worked closely together during the two years I spent at OMB. He later became the Deputy Director of OMB under President Ford.

Presidents Nixon and Ford on employment and training issues as well as in many other areas covered by his portfolio.

The memorandum and the options paper that were given to O'Neill on April 6, 1973, began by stating specifically that the plan for moving to manpower reform under current legislation had been developed to approximate as closely as possible the administration's proposed manpower revenue sharing act of 1971. However, the memorandum also stated our belief that we were limited in how far we could go administratively and that "ultimately new legislative authority will be required." Thus, we introduced the question of legislative strategy early in the adoption of plans to install a form of manpower revenue sharing under existing statutory authority. We stated our belief that in both Houses of Congress, but particularly in the Senate, there seemed to be considerable receptivity to the salient features of the administration's 1971 bill. Similarly, we expressed the belief that mayors and elected county officials were also highly supportive of the general approach, while governors might have some reservations.

Let me emphasize again that, even in these earliest conversations with OMB, it was clear to us and made clear to the White House that, although we could go some distance toward effecting manpower reform through administrative action, there were real and specific limits beyond which we could not move and, therefore, we should keep open the option of moving to legislation at some future date.

During the months of April and May, Paul O'Neill and I and our respective staffs were engaged in a series of discussions revolving around the five basic issues that had to be settled before the regulations could be put into final form.

The most crucial issue related to the extent of federal direction over state and local operations. It was clear from our review of MDTA and EOA that those laws precluded our moving to the full concept of revenue sharing with its minimal federal direction and accountability, but we did believe that a form of limited federal accountability would be possible. We believed that this limited federal responsibility would allow state and local sponsors to plan and design manpower programs and, therefore, would achieve the basic purposes of decentralization and decategorization, and yet would maintain the legal requirements of the basic legislation regarding the

accountability of the Secretary of Labor. We described this limited federal accountability approach as implying some form of sanction and remedy as a last resort to ensure satisfactory performance by state and local operators.

Our approach on this issue was for a limited but balanced federal role, which would preserve for the federal government the ultimate accountability for total performance of the system and would ensure that the Secretary of Labor had the tools to perform necessary review, oversight, and evaluation functions of the actions of state and local prime sponsors. OMB, on the other hand, was constantly wary that we were "backsliding" on this issue toward a stronger federal role than was consistent with the theory of revenue sharing. We arrived at a compromise on this issue in drafting the regulations that could be characterized as a "limited federal role," but the basic issue and its ramifications reappeared constantly throughout the entire process of developing and passing CETA.

The second issue concerned the size of local political jurisdictions that should be eligible to be "prime sponsors" and, thus, manage their own manpower programs. A population cutoff of 100,000 for cities and counties had received wide acceptance in Congress. The Emergency Employment Act had provided, however, that jurisdictions of 75,000 population could qualify as program agents to operate public employment programs. This had resulted in building some pressure to cut the size criterion of eligible prime sponsors. Of course, as the size of prime sponsors is cut, the role of the governor in operating what is called the "balance of state" share of the manpower program becomes increasingly smaller. So this issue was also very much bound up in the role of the states.

This issue also relates to the desirability of planning and operating manpower programs on the basis of the labor market area. Job locations know no political boundaries, and most jobs are filled by individuals from a wide commuting area. Consequently, public job training and job creation programs should also be planned and operated on the basis of the way labor markets operate. In line with the principle, the administration's bill of 1969 had proposed that central cities be the prime sponsors for entire metropolitan areas. While that seemed to make eminently good economic sense, it did not make political sense and was unacceptable to suburban city and county governments.

By 1973, it was abundantly clear to us that political realities dictated that prime sponsorship size should be

left at 100,000, thereby qualifying many suburban counties. The best we could hope for in promoting area-wide planning and operations was to provide an incentive bonus for separate prime sponsors to come together in a shared power arrangement.

The third issue concerned the role of governors and state governments. The original administration's 1969 bill had carved out a major role for governors; it had provided that all manpower grant funds would flow through state government to local prime sponsors and that state governments would have an overall coordinating, reviewing, and approving role over local prime sponsor plans and programs. During the debate over the 1969 manpower reform legislation, the governors took little interest and played a very weak role, whereas local governments, particularly the major cities, played a very strong role. The resulting legislation, which was ultimately vetoed by President Nixon, had given the states a relatively weak role of general coordination and some minimal statewide planning but had provided direct funding to local prime sponsors and gave them maximum latitude in planning and carrying out their own programs and dealing directly with the federal government. That pattern had been continued in the administration's proposed 1971 special revenue sharing bill. In addition, by 1973 the counties had become a much stronger force on the manpower scene, thereby further strengthening the influence of local governments vis-a-vis the states. Consequently, our position, conveyed in the memorandum to OMB, was to promote the governors' role as set forth in the administration's 1971 bill as the most workable compromise.

The fourth issue had to do with the apportionment formula that would be used to distribute manpower funds. This issue is always one of the most hotly contested because, of course, it spells out specifically how a sponsor's "fair share" is going to be calculated from the total funds available. One of the major criticisms of the manpower programs of the 1960s was that funds were allocated on a project-by-project basis without an apportionment formula. Consequently, program resources had become concentrated in large urban areas that had the most sophisticated ability to prepare and push through project proposals--the art of grantsmanship. Any formula approach tied to objective measures of unemployment or poverty would result in the relative movement of resources from the central cities to the suburban counties and the rural areas. We settled on a needs-based formula that was subject to a "hold harmless"

provision at current funding levels so that there would be no drastic and immediate changes in the amount of funds available to current sponsors.

The fifth issue dealt with the role of the Employment Service. The state employment service agencies had traditionally served as a labor exchange to all and had been involved to a greater or lesser degree in most of the manpower programs starting in the 1960s. The manpower revenue sharing plan of 1971, however, had contemplated that local prime sponsors would not be required to use the employment service in the delivery of even the traditional services of client screening, counseling, selection, referral, and placement. This approach left it up to state and local prime sponsors whether or not to use the employment service.

In the April 1973 memorandum to OMB, we argued the other side of this case, that it is clearly not a desirable management posture for the same agency to support both a public employment service under state aegis and a competitive public employment service under local government aegis. Instead, we proposed a purchase-of-service requirement that would call upon state and local governments to use the employment service for client service and placement activities absent a showing by substantial fact that the employment service could not fulfill the required program performance. If a local government could show nonperformance, it could then contract with an alternate supplier for these services or provide them directly. If this occurred, however, the Labor Department would be compelled to take action to remedy those demonstrated defects in employment service performance.

On this issue, OMB and the White House were adamant, and they ultimately prevailed in leaving an open choice for prime sponsors. Though conceding that, by failing to deal with the issue, we were likely borrowing much trouble in future periods, they nevertheless held to the view that it would be inconsistent for us to be devolving control of manpower programs to local prime sponsors and at the same time compel them to use the employment service for many critical manpower services.

While conversations on the memorandum and options were under way during April and May, we were preparing succeeding drafts of the regulations. By the end of May, we had achieved tentative agreement with the White House, and the plans had been converted into detailed regulations that were now ready to be shown to people outside the executive branch.

Our original timetable for implementing the regulations called for us to consult with all interested parties early in May, publish the proposed regulations in the *Federal Register* on May 15 with a 30-day comment period, use the period June 15 to July 1 to revise the final regulations, and then publish the final regulations about July 1, the beginning of the fiscal year.

The first public and official airing of our administrative approach to revenue sharing came in my appearance before the Subcommittee on Employment, Poverty, and Migratory Labor of the Senate Committee on Labor and Public Welfare on May 3, 1973.

Going Public in the Senate

Washington in May 1973 was an almost hopeless environment within which to conduct government business. The President and his key White House staff were enmeshed in Watergate, his domestic program was stalled in the Congress, and the administration was thus trying to move toward the President's objectives without seeking legislative authorization. The President's budget had imposed major cuts and deletions in important domestic programs that had grown out of President Johnson's "Great Society." The President had ordered the impoundment of funds on many major domestic programs that he either wished to slow up or phase out, and alarmed citizen groups with the support of the Congress flooded the courts with suits charging that the impoundments were illegal.

Although the President did not have the votes in Congress to enact his legislative proposals, he retained enough votes so that the veto weapon was credible and had been used successfully a number of times. In this deadlocked situation, the Democratic Congress assumed a partisan attitude and approached the administration's proposals and many administration officials with distrust.

As I prepared for my first appearance as Assistant Secretary before a congressional committee, I took stock of my assets and liabilities. On the asset side, I believed that I was viewed as a professional, first and foremost, with a long career background in Washington and standing in the manpower community. In addition, I thought I could and would project an attitude of pragmatism and compromise.

On the liability side, I had already seen indications that as a recent Nixon administration appointee I was

viewed with suspicion by some members of the Congress and that this suspicion would only be allayed after some period of time--and only through deeds, not words.[2]

Through my long experience in Washington I had learned that political appointees in the executive branch can only be successful if they learn how to position themselves "somewhere in the middle of Pennsylvania Avenue." In other words, a key responsibility of a political executive is to maintain open and productive relationships with both the White House at one end of Pennsylvania Avenue and the Congress at the other end. The loss of credibility at either end of the avenue destroys the effectiveness of a political appointee in getting the work of the government done.

This maxim applied to my own personal situation: I knew I must continue to maintain my credentials and credibility as an official of the Nixon Administration by carrying out the President's policies to the best of my ability; on the other hand, I knew I must also establish an open, honest, and constructive relationship with the leaders of the Democratic Congress responsible for manpower legislation. If I failed either of these tasks, my effectiveness would be destroyed.

Given the general negative environment, I could not have faced a more knowledgeable or constructive congressional committee than the Subcommittee on Employment, Poverty, and Migratory Labor of the Senate. The Subcommittee was chaired by Senator Gaylor Nelson, Democrat of Wisconsin; the ranking minority member was Senator Jacob Javits, Republican of New York. Both Senators had held these respective positions for some years and had been through the ups and downs of the manpower debates over the first four years of the Nixon Administration.

Senator Nelson had the reputation of being moderate, constructive, and desirous of avoiding unnecessary political confrontation. He was basically in sympathy with decentralizing federal programs to state and local governments and was generally in favor of decategorizing manpower programs. Like most liberal Democrats, he was a strong supporter of public service employment, but he was open

[2]Another possible liability was the impression that I had made during my confirmation hearings before this same Senate Committee. I knew that I had come off badly; I had been unnecessarily combative and defensive. To make amends, I had subsequently gone to then-Senator Mondale's office to offer my personal apologies.

to compromise. Although I was not aware of it at the time, three of the bills that Senator Nelson had handled had been vetoed by President Nixon over the preceding four years, and, in each case, the vetoes were sustained. He saw no point in legislation that was sure to be vetoed and reflected this attitude in a willingness to consider reasonable compromise with the Republican administration.

Senator Javits was the ranking minority member of the full Senate Committee on Labor and Public Welfare as well as the most powerful minority member of the Subcommittee and one of the most influential and respected members of the Senate. His background on manpower matters and his general policy stance on manpower was very similar to that of Senator Nelson. (If anything, Senator Javits was a stronger believer in public service employment than was Senator Nelson.) As the senior Republican on the Committee, Senator Javits was the key to maintaining open lines of communication with both the minority and majority members of the Committee. As this story unfolds, it will become clear that in a number of crucial instances Senator Javits played this role in a most skillful manner. These two key Senators worked very closely and confidentially together and expected their staffs to do likewise.

The importance of congressional staff cannot be overemphasized. As the work of Congress has become more voluminous and complex, the amount of time that a member of Congress, particularly a Senator, can give to a specific piece of legislation is decidedly limited. In order for members to cope with their overwhelming workload, they have turned increasingly to professional staff members to carry out the day-to-day work of committees.

William Spring and Richard Johnson for Senator Nelson and John Scales for Senator Javits had served the Subcommittee for some years and were as expert in manpower matters as anyone in the country. Like the two Senators, they had been active participants in all manpower legislative matters going back into the late 1960s. All three individuals were effective legislative craftsmen, worked together easily (as did their two bosses), and avoided unnecessary partisanship.

Beginning in February 1973, this Subcommittee had held 20 days of hearings in Washington and in the field in order to develop a consensus on manpower reform legislation. On April 12, Senators Nelson and Javits jointly introduced S1559 and S1560: S1559 authorized a flexible block grant manpower program that was similar to the one that had been embodied in the vetoed 1970 bill; S1560

authorized the continuation of the Emergency Employment Act for two years. The Committee's purpose in separating these into two bills was obvious. The 1970 bill had been vetoed on the public service employment issue, and the Committee had decided not to mix this issue in with the more basic structural reform of the manpower system.

My testimony on May 3, 1973, presented the administration's views of S1559 only; the Committee knew that the administration was totally opposed to continuation of public service employment and apparently had no need or desire to highlight this basic difference. In preparing my testimony for the Committee, I realized that there were two basic missions to accomplish: first, to put before the Committee in a comprehensive and positive fashion our plans for moving ahead with manpower reform through administrative means, our reasons for those plans, and why we believed this approach was a positive action and not an act of confrontation. Second, to convey to the Committee that, although there were some elements of S1559 that we could not accept, it was basically a constructive, useful, and professionally drafted piece of legislation that could serve as a vehicle for compromise if such seemed possible at a later date.

I began my statement before the Committee by summarizing, for the first time publicly, the general characteristics of manpower revenue sharing we planned to implement administratively:

- Approximately 70 percent of the available funds in the combined MDTA and EOA accounts would be distributed to states and localities by formula;
- Eligible prime sponsors would be states, cities and counties, or similar units of population of 100,000 or more;
- Governors would receive separate funds to provide for coordination of statewide planning and priority projects;
- State and local officials would have maximum discretion to plan and operate programs in their areas, within the existing provisions of the MDTA and EOA;
- There would be no presumptive deliverers of service, although we would expect nearly all state and local officials to choose to use the services of the established and experienced agencies, such as the employment service and the vocational education system, when their local plans include activities traditionally associated with those agencies;

- The Department of Labor would establish national target group priorities, but local officials would be able to adapt these to their unique local population and problems;
- There would be an application and approval process through which state and local officials would establish their performance objectives and make public their plans and progress;
- Coordination with other separately legislated manpower activities, such as the Work Incentive Program (WIN) and the employment service, would be encouraged.

I indicated to the Committee that these basic principles were now being embodied in proposed regulations and guidelines, that they were entirely consistent with the legal requirements of the MDTA and the EOA, and that we intended to move in a controlled and phased fashion to implement this program, working through state and local officials.

My testimony praised S1559 in general but outlined some of the specific problems that we saw in the legislation, such as the continuation of a number of categorical programs and the inclusion of specific funding for community action agencies.

In the ensuing questioning by the Committee, Senators Nelson and Javits stated their positions on several important issues that, in retrospect, were important portents of their actions over the coming months. In responding to my criticism of the Committee bill for being overly categorized, Senator Nelson first emphasized his 15-year commitment to returning responsibility for manpower programs to state governments:

> ...we ought to return to the state and local governments every single function performed by the federal government that can, in fact, be performed effectively at the local level.
>
> It is an administrative bureaucratic monstrosity down here in Washington and we just do more damage to the country through the bureaucracy than you would have as a consequence of the various varieties of incompetence or corruption that you will, from time to time, find in the state and cities.

and then stated his view of categorization: that the bill already named a category, "poor people," so all the Committee was asking for was a program that also took into

consideration meeting the problems of the middle-aged, elderly citizens, and non-English-speaking people. He stressed that the Committee was not saying that any area had to spend so much money on any particular program: if something was not a problem in the area represented by the prime sponsor, then that area would not include a program for it.

At a later point in the hearing, Senator Javits expressed his concern about the proper degree of federal responsibility and supervision over state and local operations in a decentralized system, in particular, concern about the possibility that a state or local government might fall down on the job--fail to deliver needed services. He asked whether the federal government should step in and provide services, either directly or by agreement with others, perhaps even using voluntary organizations like community action agencies, so that the purpose of the law would not be frustrated because of failure by a local or state government.

I responded that I believed we were dealing with a matter of relative degree. If a local or state sponsor was guilty of "gross malpractice" in carrying out its responsibilities under the law, clearly the federal government would need to step in and take some remedial action--either to change the sponsorship, to give technical assistance or guidance, or to use a variety of other methods to correct the situation.

I stated that while I thought there needed to be some way of preventing gross malpractice, I worried about the many strings now attached to program operations.

In response to a question from Senator Javits as to whether the federal government, under current laws, would take the ultimate underwriting responsibility for delivering services, I said, "categorically yes," that we certainly would have to do that under the current laws.

After some further colloquy, Senator Javits expressed his fear that under a special revenue sharing approach, the government might not underwrite the continuation of the manpower programs. He noted that he considered the term "special revenue sharing" a misnomer, that the administration's proposals were really block grants of assistance. He stated emphatically his position that Congress was appropriating money for manpower training and must absolutely insist that the executive branch ensure that the money would be actually used for the purpose for which it was appropriated. Senator Javits then said that the term "gross malpractice" was a way of avoiding

the issue and that he did not want to become embroiled in legal definitions of gross malpractice, gross negligence, gross misapplication--none of them was an underwriting. "...I do not believe that in your department that is clear, and, when it is, then we will get together on a bill, and until it is, we will not get together."

Senator Nelson suggested that the key question was how extensive a bureaucracy is necessary to guarantee that the law is implemented as authorized and directed by the Congress. He stated his agreement with Senator Javits that Congress authorizes legislation for some purpose and has to ensure that it is spent for that purpose.

After some further discussion with Senator Nelson in which we explored the details of field monitoring and oversight and the role of the regional offices, Senator Javits returned to the subject of federal responsibility. He stated his agreement with everything that Senator Nelson and I had discussed--if I would add one other point: that any bill give residual power to the Secretary of Labor to make some other contract, no matter with whom, to see that the job got done. I said that I would buy that point, and Senator Javits said: "Then we are together and I think we can write a bill."

The following day, I reported to Secretary Brennan on the Senate hearing. I told him I believed that the objective of trying to project a constructive and cooperative attitude on our part and, at the same time, preserve the administration's position had been achieved and that we should be moving ahead on manpower revenue sharing under current law. I said that the session generally came off as a serious discussion of alternative approaches to manpower legislation with a minimum of posturing for position and name calling. I noted that Senator Javits had pushed very hard on a strong federal role to ensure that manpower funds would be spent on the clientele groups needing the most help and that prime sponsors would conduct an effective manpower program. I said I had attempted to assure Senator Javits that the federal government would certainly not tolerate "gross malpractice" but that under manpower revenue sharing we would be removing as many of the federal strings, reports, oversight visits, and monitoring as we reasonably could. I reported that I thought the exchange with the Senator was useful and continued to highlight this most crucial and troublesome area of revenue sharing and that Congress would not pass a piece of manpower legislation that would go as far in removing the federal oversight role as the administration wanted.

The Regulations and Hard Bargaining

During the months of February, March, and April 1973, while the administration was engaged in preparing its plans for proceeding to revenue sharing by administrative action and the Senate Committee was engaged in developing a manpower reform bill and an extension of the Emergency Employment ACT (EEA), the House Select Labor Subcommittee of the House Committee on Labor and Education had proceeded with its own plans to extend the EEA for two years. The Subcommittee had held hearings on the two-year extension on February 26 and 27, 1973. The administration, represented by Acting Assistant Secretary for Manpower Paul Fasser, had vigorously opposed the continuation of the public employment program on the grounds that unemployment had declined since the enactment of EEA and that the longer the program continued the more it would become merely a substitution for local funds. Not surprisingly, there had been strong backing for continuation of the EEA, particularly from the prime sponsors and the AFL-CIO and its affiliates. On April 16 the Committee reported HR4204, which continued EEA for two years and increased the authorization from $1.7 billion for 1972-1973 to $4.5 billion for 1974-1975. On April 18, the Speaker of the House decided to take it up to the full House.

In a most dramatic and surprising move, the House killed the bill by supporting a motion by Congressman Marvin Esch (R-Michigan) to reject the rule under which the bill could be brought to the floor. This rejection of the rule was almost without precedent and it greatly surprised and embarrassed the Democrats handling the bill and, particularly, their major supporters in the AFL-CIO.

Congressman Dominick Daniels (D-New Jersey), the Chairmen of the House Select Labor Subcommittee and the manager of the bill, has since stated in a June 1975 article in the *Labor Law Journal*: "The bill failed on the House floor not on its own merits but rather on a dispute over the rule for its consideration. The issue centering on the rule had more to do with intraparty disputes than with the language of EEA." The general feeling at that time, however, was that a coalition of Republicans and Southern Democrats had served to make it clear that there was hardly a majority in favor of continuing a major public service employment program, let alone the two-thirds that would be necessary to override a certain Presidential veto.

The House action was certainly a key event in providing the conditions under which a compromise manpower reform bill could be worked out. As Congressman Daniels has written: "This defeat for extension efforts, coupled with a simultaneous weakening of the administration's political position for matters also unrelated to EEA, set the stage for a cooperative spirit among Democrats and Republicans, led by Congressman Marvin Esch, the Subcommittee's ranking minority member. It was this bipartisan effort which ultimately led to the drafting of CETA."

On May 4, 1973, the day after my appearance before the Senate Committee, I received a call from Congressman Daniels asking me to meet with his Select Labor Subcommittee on May 8 in an informal, off-the-record discussion of manpower legislation. Before finally agreeing to this appearance, I checked it out with the Republican members of the Subcommittee, Congressmen Quie, Esch, and Steiger. They all agreed that such a meeting would be a useful next step in a dialogue between the administration and the Congress. I then sent a copy of my Senate testimony to each member of the Subcommittee and suggested that we might use it as a take-off point for our discussion.

Although this story primarily deals with events connected with legislative actions, the operational steps needed to put new policies and programs into effect are at least as important. The next day, May 5, I met in Kansas City with the top staff of the Manpower Administration to discuss the status of our plans for implementing manpower reform through administrative means as well as the status of legislative actions in the Congress. The discussions covered the latest drafts of the regulations and a number of documents that spelled out our plans and our timetable for effecting the manpower reform actions over the coming months. It was crucial that the entire executive staff of the Manpower Administration understand that we were proceeding carefully but surely to carry out the President's order to implement the manpower reform program through administrative means. At the same time, it was important for them to understand that we were exploring every possible means to work out with Congress reform legislation that would be acceptable to the administration.

This meeting in Kansas City was the first of what became regular monthly meetings with the ten Regional Administrators and the top staff in Washington to develop together specific policies and actions. At this crucial early stage in our developing strategy, it was important

to have a set of clear operational moves that would signal to the hundreds of state and local sponsors that we were serious in our intensions and were moving ahead to put in place what we believed to be an improved manpower system. In turn, of course, the state and local sponsors conveyed back through their network to Congress the actions that were under way and the portent of those actions with respect to the deadlock on legislation.

Congressman Dominick Daniels was a veteran Congressman from an essentially safe Democratic district where his most important support came from organized labor. He had headed the Select Labor Subcommittee since 1969 and had, therefore, been deeply involved with all the manpower legislative problems through the preceding four years. (I had come to know Chairman Daniels in 1969 when I travelled with the Subcommittee to the West Coast where the Subcommittee had held hearings on manpower reform legislation.) Chairman Daniels was highly respected by his colleagues and was a competent and trusted legislator. His Republican colleagues on the Subcommittee described him to me as, above all, a man of integrity, and a man who understood the legislative heart of compromise.

The senior minority member of the Subcommittee was Congressman Marvin Esch who represented a political swing district encompassing the city of Ann Arbor and surrounding areas: Ann Arbor, as a major university community, was very liberal and the surrounding areas, like Livonia, were basically more conservative blue-collar, working-class areas. Consequently, as the Congressman would explain, no matter what stand he took on most issues, about half his district would support him and the other half would oppose him. Congressman Esch had been on the Subcommittee for the preceding four years, but had only recently become the ranking minority member. I had not known Congressman Esch prior to my assuming office but was immediately impressed by his grasp of the issues in manpower reform and his confidence that compromises could be worked out that would result in an acceptable bill. By the time of our first meeting, he had already developed a productive and trusting relationship with Chairman Daniels, and they were quietly working together to try to write compromise legislation.

The other important Congressman who played a key part in achieving manpower reform was Albert Quie of Minnesota, who had been in the House for almost 20 years. As the ranking minority member on the full Committee, he was an ex officio member on all subcommittees. Congressman Quie

served as the major liaison and communication link between the Republican administration and the House Labor and Education Committee. As such, he was highly influential and very effective. In the negotiations on CETA and in succeeding negotiations on other pieces of legislation, he was always the balance wheel that kept things on a steady course.

The staff of the House Committee, like those of the Senate Committee, were highly knowledgeable on manpower matters. Austin Sullivan, the chief legislative strategist for the Committee Chairman (Carl Perkins of Kentucky), Daniel Krivitt for Congressman Daniels's Subcommittee, and Charles Radcliffe serving the minority on the Subcommittee had all been involved in manpower matters since the late 1960s and also had gone through the trial and trauma of the preceding four years.

As Mr. Daniels had indicated, the meeting with the Subcommittee on May 8 was informal; it was attended by the Subcommittee members and by Chairman Perkins, Congressman Quie, and the majority and minority staff. It was clear from the questioning that the Committee was interested in testing our resolve on moving ahead with manpower reform through administrative means as well as in exploring the legal basis for doing so. I stood my ground on our serious intentions and what I believed to be our legal basis for proceeding; the Committee members and the staff were incredulous and disbelieving that we would follow through on our announced course. Chairman Perkins, particularly, denounced our actions as constituting an open confrontation with Congress and its properly constituted committees--we were arrogating to ourselves legislative prerogatives that only Congress possessed.

It was at this meeting that I first fully realized the impact that our plans and regulations were having on Congress. I decided that the threat of the regulations could be an important bargaining tool to influence Congress in making compromises so that mutually acceptable legislation would be passed.

Following this appearance before Daniels's Subcommittee, we moved immediately to begin to consult with all the interested parties on the regulations, which were now in acceptable draft form. Between May 8 and June 14, 1973, we met with community groups, labor groups, and representatives of the governors, mayors, and county officials. This process of consultation was carried out publicly, extensively, and with much fanfare. It was my intention to use this consultative process to alert Congress and the many

interested groups in the manpower community that either legislative or administrative action was absolutely necessary. Now that I understood the value of the regulations as a bargaining tool with the Congress, there was not the same hurry to get the regulations into final form and officially published in the *Federal Register*.

On June 1, just prior to the annual Governors Conference to be held at Lake Tahoe, Nevada, Secretary Brennan wrote to each governor to report on the status of our work on the regulations and indicated that we planned to publish proposed regulations soon in the *Federal Register* and provide a 30-day period for review and comment. The letter transmitted an attachment that summarized the basic elements of our plan and characterized the plan as providing a "significant role for the Governor's office in the state manpower planning process."

At an earlier point in this narrative, I described the role of governors and the state government that had been included in the 1971 manpower revenue sharing legislation. That role was markedly diminished from the role originally included in the manpower reform bill of 1969 and was far from the powerful role that state governments played in many of the older federal grant-in-aid programs. Although we described the role as a "significant" one in the Secretary's letter to the governors, we were well aware of the fact that the governors had belatedly come to understand that their prospective role, both under our regulations and in the legislation now developing in Congress, was a markedly circumscribed one.

On June 3, I journeyed to Lake Tahoe to meet with the Conference Human Resources Committee, which had been chaired by Governor Rockefeller of New York for many years. The meeting was being held in one of the large gambling hotels and I had difficulty in locating the meeting room. When I finally found it, it turned out to be the most bizarre setting that one could imagine for a serious business session with some of the major governors of the states. The Committee was to meet in a small hideaway bar just off the gambling casino. The bar was lit by garish red ceiling lamps that made it look like what it was--a den. As I walked in it was clear that no preparations had been made for the meeting--the bar was still a bar. Presently, staff members scurried around and rearranged tables and chairs and bar stools to try to lend as much dignity and efficiency to the proceedings as was possible in such an unlikely place.

Governor Rockefeller soon arrived and took his place as chairman. Seated to his right and left were the governors of Idaho, Texas, and Arkansas. He began by asking me to make an opening statement, which I did by passing out the outline of our regulations and giving a short description of the regulations.

For the ensuing hour, I was barraged by all the governors and, particularly, by Governor Rockefeller. They were incensed that we would propose giving grants directly to major cities and counties--despite the fact that the 1970 bill vetoed by President Nixon and the 1971 revenue sharing bill had done exactly that, and that the bill that was about to pass the Senate had done the same. In essence, Governor Rockefeller and his colleagues were arguing for returning to a classic state formula grant program, where all funds were granted to and managed by the state government. But they were arguing four years too late.

Governor Rockefeller courteously thanked me for coming and moved the Committee on to other business, but I knew that the Committee would propose a strong resolution for the full Governors Conference in opposition to our plans. I also was reasonably sure that, although I shared some of the views that the governors had expressed, they had come on the scene with too little and much too late.

During May and June 1973, changes took place in the White House that were to have a major impact on this story. John Ehrlichman, who had been the leading White House domestic policy adviser and spokesman, was asked by the President to resign because of Watergate. Whether correctly or not, Ehrlichman had received much of the blame for the confrontation and negative stance the White House had taken with the Congress on domestic policies. That stance had created a legislative and policy deadlock that Congress had come to believe had to be broken in order for the government to resume some semblance of normal functioning.

After Ehrlichman's resignation, President Nixon named Melvin Laird as his principal domestic adviser and stragegist. As a longtime Republican Congressman from Wisconsin and the Secretary of Defense during President Nixon's first term, Mr. Laird had developed the reputation of a Washington insider who knew how to get things done in both Congress and the executive branch. He was one of the most powerful insiders in the Republican party and also enjoyed wide respect among leading Democrats in the Congress. It is now know that Mr. Laird took this White House job not only at the request of the President and the

Republican party, but also at the urging of top Democratic Congressional leaders, including then Senate majority leader Mike Mansfield.

I knew that Mr. Laird had close relationships with the key Republicans, Congressmen Quie, Esch, and Steiger, who were concerned with manpower reform legislation. Laird's appointment to the White House position encouraged these key Congressional leaders in manpower reform and, as they told me, signaled that compromise and accommodation might again become acceptable concepts in the White House.

What I did not know then was that Melvin Laird and Senator Nelson were longtime friends. Melvin Laird had been majority leader of the house in Wisconsin when Gaylord Nelson was the minority leader, and they had stayed in close touch since that time. Laird and Nelson had many conversations on the subject of manpower reform in the ensuing months, and these conversations were another chance but important factor in moving manpower reform out of a deadlocked position.

While Melvin Laird assumed the top White House domestic post, the post under him as director of the Domestic Council was filled by Kenneth Cole. I had come to know Ken Cole well during my two years in OMB and had always found him to be reasonable and effective. I was particularly pleased upon learning that Ken Cole had been given the top responsibility for dealing with the governors, mayors, and county officials, because I believed he would be effective in winning the confidence of those clientele groups with which we would have to work closely in order to effect manpower reform. I was also certain that he was, by nature, not a hard-liner in dealings with the Democratic Congress but would be open to reasonable accommodation and compromise if that became possible.

Ken Cole assigned one of his most effective senior staff men, James Cavanaugh, to work directly with us and with OMB on manpower reform. Although Cavanaugh had had no background in the issues involved in manpower reform, he became quickly conversant with the territory. He and Paul O'Neill became the White House team with which I worked.

On June 14, 1973, I met at the White House with Ken Cole to go over the status of our regulations. It came as no surprise that Cole had run into a hornet's nest on the subject at the Governors Conference and, as a result, had agreed to consult further with the governors before formally publishing the regulations. At this time, I was still convinced that we should appear to be moving to publish the regulations in the *Federal Register* and to

move ahead in implementing them. I believed that our credibility could be damaged by extended delay, but Cole had committed himself to withholding formal publication, and we were bound to honor that commitment.

The federal government has had, for many years, a formalized process for consulting with state and local governments on matters of direct concern to them; this process is embodied in OMB Circular A-85. We had not used the A-85 process on our regulations because we had had so many other avenues for consultation. After much discussion, we hit on the idea of using the formal A-85 process as a way of continuing to show our serious intention of moving ahead, while honoring Cole's commitment to the governors by stopping short of formal publication in the *Federal Register*. The A-85 process allows state and local governments 30 days for returning comments on proposed regulations, so we bought another 30 days, to July 19, 1973, before being expected to take any further action in publishing the regulations.

As the end of the fiscal year (June 30) approached, it became clear that Congress would be unable to complete action on extending either the MDTA or the EEA. On June 18, the House Education and Labor Committee reported a simple one-year extension of the MDTA, but it was clear that the bill could not be acted on by the time the MDTA expired by July 1.

Of more significance to the process of developing reform legislation, however, was the inclusion in the one-year MDTA extension bill of an express prohibition against implementation of manpower revenue sharing through administrative means during fiscal 1974. Chairman Daniels indicated that the purpose of the amendment was to prevent the Department of Labor from implementing manpower reform through "executive fiat" and stated that I had said that we were determined to proceed and that "he [Kolberg] had his orders and Congressional action or inaction was immaterial to him." The Republicans, led by Congressmen Quie and Esch, took the position that the one-year extension bill was unnecessary--the Congress should instead proceed to draft comprehensive manpower reform legislation.

This action of the House Committee showed us that the threat of the regulations was now being taken so seriously by the House Committee Democrats that they found it necessary to try to prohibit such action by legislation. It was another important step in fostering a climate for compromise between Congress and the administration.

It was also a signal that we should be wary of overplaying our hand on the regulations. The regulations were having the hoped-for effect, but I was glad that the A-85 process gave us until late July to face up again to whether or not further steps were needed. Some legislative compromise now began to seem possible.

The Senate and the Olive Branch

On June 14, 1973, by unanimous vote, the Senate Committee on Labor and Public Welfare voted out favorably both S1559 (manpower reform), and S1560 (extension of EEA). The Committee bills were little changed from those that had been introduced by Senators Nelson and Javits, and the unanimous vote of the Committee on S1559 illustrated the strong support in the Senate for manpower reform through legislative action. Even the conservative Republicans, Senators Dominick and Taft, endorsed the basic principles embodied in the bill, and Senator Taft characterized the bill as a "responsible approach." On July 24, 1973, the Senate passed S1559 by an 85-5 vote, and on July 31, 1973, the Senate passed S1560 by a 74-21 vote.

These actions by the Senate made two things very clear. First, there was almost unanimous support for manpower reform legislation, and even though S1559 had some unacceptable features, it was basically consistent with what the administration had been supporting. Second, however, the extension of the EEA, also passed by an overwhelming vote, again served as a reminder that the Congress would insist on some public service employment as a part of manpower reform.

On the morning of July 25, the day after the Senate vote on S1559, Senator Javits placed a telephone call to Secretary Brennan that constituted a key turning point in the political infighting over manpower reform. Senator Javits proposed and Secretary Brennan agreed to meet that afternoon at Javits's Capitol office to discuss ways of moving ahead with compromise manpower legislation. Present at the meeting were Senators Javits, Nelson, Taft, and their principal staff and Secretary Brennan, me, and our principal staff.

Senator Javits chaired the meeting but deferred at all points to Senator Nelson. It was clear that they were in agreement and were holding a joint discussion with us. As they had during the hearings, they took a conciliatory and constructive approach. They pointed out that the Senate

bill represented major progress toward manpower reform, but stressed that some form of public service employment would be a necessary part of any final congressional action. They also emphasized that our regulations were seen on Capitol Hill as a serious confrontation between the administration and Congress and that our continuing actions on the regulations was taken as a indication of the unwillingness of the administration to work with Congress.

Both Secretary Brennan and I pointed out that we believed that the regulations were legal and that we were moving responsibly toward manpower reform. We pointed out that the regulations were being developed on orders of the President and that we were under strong pressure from the White House to continue to achieve manpower reform without legislation. At the same time, however, Secretary Brennan continually expressed his desire and willingness to work with Congress in seeking an acceptable compromise legislative solution.

Following an extended and cordial discussion, Secretary Brennan concluded the meeting by pledging to withhold publication of the regulations pending the outcome of the necessary compromises that would have to be worked out in the House. He expressed our strong willingness to work toward a legislative solution and pledged our full cooperation with the Senate and the House toward that end.

I was somewhat surprised but certainly gratified by the outcome of the meeting. The White House had been exerting pressure to move on the regulations, and I was then not aware of any conversations that Secretary Brennan might have had on the subject. He has subsequently told me that he had had conversations with President Nixon indicating his desire to seek a legislative solution and had been given the go-ahead by the President. He had also had similar conversations with Melvin Laird.

It was helpful in this situation that Secretary Brennan and Senator Javits had known each other well for many years in New York City and that they enjoyed an easy and trusting relationship. As is now clear in this story, as in most legislative stories, the chance accidents of personal relationships, personalities, and trust play an unseen but ofttimes crucial role in major policy events.

Compromise in the House

On the morning of July 26, 1973, the day after the eventful meeting in Senator Javits's office, I met at the White House with Jim Cavanaugh, Paul O'Neill, and others to brief them on the results of the meeting and to inform

them, first, of the Secretary's decision to work with the House to develop a compromise bill and, second, his pledge to withhold publication of the regulations pending the outcome of this activity with the House.

Both Cavanaugh and O'Neill continued to have serious doubts about the success of this venture. They based these doubts on what they perceived to be a number of instances in the past when the Congress had "gamed" the administration. O'Neill said that he thought we were "being had."

Nevertheless, given the Secretary's pledge, there was no alternative at that point but to go ahead. Cavanaugh warned me, however, that, if there was no serious indication of progress before Congress went home for recess in August, we would go ahead without Congress and publish the regulations.

That afternoon I met with Congressmen Quie, Esch, and Steiger to relay the results of both the meeting with Senator Javits and the meeting with the White House staff and to indicate our intention and good faith in trying to work out a compromise. I stated that I was under heavy pressure from the White House to publish the regulations and that I would need some concrete and specific signs of movement toward compromise, preferably the introduction of a bill before Congress recessed in August. The Congressmen expressed a strong desire to proceed with negotiations with Chairman Daniels. Congressman Esch said specifically that much progress already had been made in developing a compromise bill with the Democrats. Time was short, however, as the Congress was scheduled for its August recess in ten days.

In response to the President's request at a meeting on July 31, the Secretary on August 1, 1973, sent a memorandum to the President outlining our plans for manpower programs over the coming year. As a result of conversations on the Hill during the preceding week, we were able to speculate in the memorandum for the first time about the possible shape of a compromise on manpower reform and public service employment.

The memorandum stated that discussions with key Senators and Representatives indicated their acceptance of modifying the Senate manpower reform bill, through preparation of a bill in the House and agreement in conference, in three major ways:

1. Removing some of the discretionary authority provided to the Secretary, which is incompatible with the concept of local reponsibility;

2. Reviewing the remaining vestiges of categorical program language to work out even more flexible provisions; and

3. Reducing the extent of prescriptiveness in both program standards and administrative arrangements for state and local governments administering manpower programs.

It was also agreed that the extraneous title funding "community action activities" would be deleted.

The Secretary's memorandum also stated that the manpower bill would incorporate a compromise public service employment component, the general nature of which had been agreed to:

1. A separate title in the bill would authorize a public service employment program only in areas of very heavy unemployment, with the precise unemployment criteria to be worked out.

2. The employment in these jobs would be transitional in nature, that is, jobless persons employed in them would move through these subsidized jobs to permanent, unsubsidized employment.

3. Enrollees would be limited substantially to the disadvantaged, long-term unemployed.

4. State and local governments operating the main manpower program in areas of high unemployment would receive a formula share of a separate appropriation to support public service employment or, at their option, to be used for manpower services authorized elsewhere in the act.

5. Appropriations authorized would be "such sums as necessary" with the understanding that a fiscal 1974 level of $250 million would be acceptable. (This amount would represent a net increase of that amount in the fiscal 1974 manpower program budget.)

6. In addition, transitional public service employment, largely limited to the disadvantaged, would be an authorized activity for regular manpower programs and funds for this purpose would be distributed among all state and local government recipients.

The possible compromise on public service employment illustrates the role of quiet behind-the-scenes discussions among staff professionals. William B. Hewitt, Administrator of the Office of Planning, Evaluation and Research in the Manpower Administration, played perhaps the single most important role in the events that produced CETA. In this particular instance, he and his able associate, William

Langbehn, had been holding quiet, off-the-record conversations with Richard Johnson of Senator Nelson's staff. The resulting compromise proposals were an amalgam of their ideas. For example, it was Dick Johnson's idea to set a level of $250 million for the separate public service authorization for fiscal 1974. Those quiet negotiations allowed us not only to say with confidence to the President that compromise was possible but also to describe to him the shape of that compromise with some precision.

On the House side, Bill Hewitt and Bill Langbehn carried on daily discussions with majority and minority staff during the week following our meeting with the Congressmen, but it was evident that a complete compromise bill would be difficult to produce on such short notice. As a backup position, an agreement began to emerge in the staff meetings: Chairman Daniels and Congressman Esch would issue a joint press release before the August recess; it would state the progress in negotiations and would express a firm intention to develop a compromise bill and to introduce it immediately after the congressional recess. Without this or some other concrete show of success in negotiation, the White House pressure to publish the regulations could not be held off.

The House recessed on August 3 without the press release having been issued. By the time I realized what had happened, Congressman Esch was on a foreign trip and Congressman Daniels was home in New Jersey. Their respective staffs were not empowered to proceed with the press release and, consequently, we seemed to be hung up on high center again. On August 7, I told Jim Cavanaugh and Paul O'Neill that a press release would not be issued. Cavanaugh asked me to reach Congressman Quie immediately and inform him of the situation. Pursuant to an agreement he had made with Quie, I was to inform Quie that, without some show of progress in the House, we would be forced to publish our manpower revenue sharing regulations.

Congressman Quie's office told me that he was travelling on vacation in Minnesota but that he might be calling in. Should he do so, they would give him my urgent message. Within an hour, Congressman Quie called me--from a phone booth outside a gas station in the little town of Ely, Minnesota, en route with his family to a canoeing vacation. After I explained the situation, he told me that he would try to reach Congressman Daniels at his district office in New Jersey and try to convince him that a public statement at this time was very important. Congressman Quie shortly called me back, still from the phone booth. He had reached

Daniels, and Daniels was willing to proceed with the joint statement in return for a guaranteed quid-pro-quo arrangement: withholding of publication of the regulations. I told Quie that I could not personally guarantee such an arrangement and could not speak for the White House, but that I would try to get some acceptable assurance if I had the draft release. Congressman Quie later told me that these phone calls were the last ones that he made for the week of his family trip.

Congressman Daniels gave the go-ahead to his staff to get the press release ready, and by the time we obtained a copy of it from the Committee's minority staff, any problems had been taken care of. On the morning of August 8 the joint press release from Congressmen Daniels and Esch was issued, and I forwarded copies to the Secretary and to the White House. Although I had made no firm commitments as to our actions on the regulations, I was certain that the various Congressmen who were involved, and Congressman Quie particularly, felt that they had acted in good faith and were expecting us to withhold publication of the regulations.

During the week of August 10, I began to receive very strong pressure from Cavanaugh and O'Neill to publish the regulations. Comments from the A-85 process had been received July 19, and we again had revised the regulations preparatory to final publication in the *Federal Register*. But I now had become firmly convinced that legislation could be obtained and so dug in my heels against publication. With all the conversations that had gone on, publication of the regulations now would be seen even more as an act of bad faith on the part of the administration in general, and of the Manpower Administration in particular.

Following a particularly acrimonious meeting with O'Neill and Cavanaugh on Saturday morning of that week, I sent off a detailed memorandum summarizing my position that formally publishing the regulations at that time was a bad strategic move. I noted that a tentative bipartisan coalition had been put together in both the House and the Senate, which brought a real possibility for achieving meaningful manpower revenue sharing reform by way of legislation within the next several months. I further stressed that having been strongly advised by the key Republican member of the House Committee, Congressman Quie, that formal publication of the regulations would be unwise, we believed that we should follow that advice. Finally, I said that we believed we were reading signals on the Hill correctly and that the administration should make every attempt to

accommodate what seemed to be honest and sincere bipartisan efforts to arrive at an accomodation on this matter and to produce a bill during this session of Congress.

Paul O'Neill felt that we would be "hoodwinked" in this matter. He was very concerned about postponing publication of the regulations, a move that could be perceived as a relaxation of our strong position on the need for continued progress to legislation. With the strong support of Secretary Brennan and Under Secretary Schubert, however, my views prevailed. For the next month the regulations remained in limbo.

Although on August 1 we had informed the President of what we believed possible in the way of a compromise bill, the President had not yet taken a position on the various options. In particular, the President had not decided whether to accept a separate public service employment program as a specific element of the overall legislation. In mid-August we began to work with Cavanaugh and O'Neill to detail the various legislative options for a Presidential decision.

A joint memorandum dated September 12, 1973, from OMB and DOL to the President posed the key question: "If an otherwise acceptable manpower revenue sharing bill can be negotiated with the Congress, would you be willing to accept a limited public service employment program as a separate component?" The possible shape of the limited public service employment (PSE) program was the same as the one outlined to the President on August 1, and we recommended that the President accept it for four reasons:

1. There was significant political support for an extension of PSE, and many congressional leaders were so publicly committed they could not possibly retreat completely.
2. It was defensible on the grounds of program needs.
3. It would avoid the need for vetoing a large EEA extension bill.
4. It would secure enactment of an acceptable manpower revenue sharing bill so long sought by the administration.

One little-known and little-used provision in what is now Title II of CETA served to allay the fears of some in the administration, particularly Paul O'Neill, over a separate categorical title for PSE. Title II can be used at the discretion of the prime sponsor either for public service employment or for any other training or employment

activity authorized in Title I. Thus Titles I and II were to be a single totally flexible block grant for the full range of manpower programs.

Up to this point in the legislative developments leading to CETA, President Nixon had had little direct involvement. As the history of this period now makes clear, the Watergate situation had by this time become so all-consuming that apparently little of his time and energy was left for matters of this kind. On the particular issue of public service employment, Melvin Laird remembers personally carrying the September 12 OMB-DOL memorandum to President Nixon, discussing it with him, and obtaining his initials of concurrence on the memorandum.

In mid-September, the President sent a message on human resources to Congress that included further indication that the administration was softening and was now willing to accept a legislative solution. "In the face of Congressional rejection of my proposals in this area (manpower), I directed the Secretary of Labor last January to implement administratively the principles of manpower revenue sharing, insofar as possible under existing law. That effort is now going forward, but I am certainly prepared to work with the Congress to achieve this same goal through legislation."

On September 25, Cavanaugh, O'Neill, and I met with Congressmen Quie, Esch, and Daniels and their staffs to convey to them the President's decision on public service employment: that he would accept a separate title in a bill for PSE and would transmit a supplemental budget request of $250 million for 1974 to get the program under way as soon as the legislation was passed. By this time, most of the other problems in the compromise legislation had been cleared up and it seemed to us that the President's agreement cleared away the last major obstacle and that we could now proceed to final drafting of a bill that would be acceptable to all parties.

On September 27, O'Neill and I were again invited to another meeting in Quie's office with Daniels and Esch. Although Daniels had clearly agreed that the $250 million for PSE for fiscal 1974 was sufficient and had given his word to proceed with legislation, he now informed us that he could not proceed any further without an additional pledge from the administration for $500 million for PSE for fiscal 1975. This escalating of the price on PSE threw the entire meeting into a turmoil--there had never been any discussion of funds for fiscal 1975 since the fiscal 1975 budget had not even begun to be prepared--and

we had gone to the President with a request for commitment of funds for fiscal 1974 on what we believed to be the firm understanding that that was all that was required to seal the compromise. Although Congressman Daniels protested that we had just misunderstood the agreement of two days ago, it was apparent to all of us that the terms of the agreement had shifted in the last two days.

The meeting broke up in a tense atmosphere with the feeling on our side that there had been bad faith on the side of Daniels and the Democrats. We had gone as far in compromising as we believed we could possibly go. We were certain that the President would not accept any commitment on the fiscal 1975 budget, and none of us was willing to raise the issue with him again. It looked like O'Neill and Cavanaugh had been right: as we had come close to compromise, the price of compromise had been raised--perhaps we had been "had." Negotiations on the bill were now completely stalled with charges and countercharges of bad faith.

I had out-of-town business scheduled for the next week, September 30 to October 8, and decided that a week of "cooling off" was desirable. A week away did serve to give a little perspective to the situation and to realize that, at this crucial final stage of compromise, the entire effort was stalled over this one single point. Congressmen Quie and Esch both told me that Daniels could not budge because the AFL-CIO was holding firm against any further compromise until a funding commitment was made for PSE for fiscal 1975. I then decided to go to the source of the deadlock, the AFL-CIO, and meet with Ken Young, the principal legislative strategist for the AFL-CIO on this bill.

Ken Young had been very much involved in manpower issues for years and was a leader in the informal coalition between the unions and the public interest groups that had been so effective in getting the EEA through Congress. I had met with Ken Young, whom I had known for some years, on May 16, when we were just beginning the process of developing our regulations. From that early meeting, I knew that the AFL-CIO was first and foremost interested in obtaining a PSE program and was less interested, and even hostile, to the idea of decentralizing manpower operations and decategorizing programs.

As it turned out, the October 11 meeting with Ken Young covered three subjects. First, he wanted to explore again our intentions in carrying out the strong federal role that was now written into the draft compromise bill. He knew,

as I did, that despite the legislative definition of that role, the real definition of the role would come about in practice--in the way the federal machinery actually conducted the policy setting, review, oversight, and evaluation responsibilities set forth in the legislation. After much discussion, I believed that I succeeded in convincing him that I was not and had never been sympathetic with the straight revenue sharing approach, that I was very sympathetic to the stronger federal role now mandated in the proposed compromise legislation, and that I would energetically carry out the federal role as now defined.

Second, Young was concerned with our intentions over "decentralizing" the many training programs that the constituent unions of the AFL-CIO now carried out under contract with the federal government. We had successfully directed that many of our program contractors, such as the Urban League, the OICs, etc., seek their funding beginning in 1973 from local prime sponsors. Young was concerned that we might do the same with the major training programs carried out by unions. I assured him that we had no intention of taking this action with respect to union training programs and that as long as I was Assistant Secretary no such decentralization would take place.

After getting these preliminary concerns out of the way, we turned, third, to the major issue at hand--Congressman Daniels's position that we could move no further on the compromise manpower reform bill until the administration gave assurances that $500 million would be made available in fiscal 1975 for PSE. It quickly became clear that the reason that the AFL-CIO and, therefore, Congressman Daniels were holding out for this provision was their fear that the administration would agree to the program, would fund it at a beginning level for fiscal 1974, and would then not provide any funds for the program, thus effectively killing PSE. As Young correctly pointed out, the administration had acted in precisely this way on certain programs in the past--either by impounding funds already appropriated or by failing to provide funds in the budget for programs that the administration wanted to kill. On our side, I pointed out to Young that, as a practical matter, the fiscal 1975 budget had not even been prepared yet, and that the assurances he desired were therefore premature and unnecessary. I also told him that we were entering into the proposed Title II PSE program in completely good faith, and although I could not guarantee at what level the program would be funded in fiscal 1975, I could guarantee that the program would be funded and that we would carry out our commitments.

In making our positions on this issue clear, it also became clear that neither Young nor I would change those positions. After some further discussion, we agreed to disagree on this issue: Why not prepare identical bills to be introduced by Chairman Daniels and Congressman Esch except for this one issue and leave this issue to be decided in the legislative process? In this fashion we could get the legislative process going again in the House. We ended the meeting by agreeing to go back to our respective principals in the House and urge them to accept this means for moving on with the process of obtaining legislation.

After the meeting with Young, I met with John Gunther, executive director of the Conference of Mayors, Allen Beals, executive director of the League of Cities, Bernard Hillenbrand, executive director of the National Association of Counties, and a representative from the Governors Conference. I discussed the tremendous progress that had been made toward legislation, my belief that we could recharge the legislative process through the tentative agreement that I had just made with Ken Young, and urged them to move quickly through their legislative liaison people to see if the deadlock could be broken. These individuals, and the groups they represented, had been in the forefront of the efforts to achieve manpower reform and we had held many such meetings to go over positions and map strategy. We once again easily reached agreement and broke up believing that we were now in sight of a goal that we had all sought for five years.

The October 11 agreement between Ken Young and me was acceptable to all, and on October 18 Congressmen Daniels and Esch introduced and cosponsored bills on manpower reform that were identical except that Congressman Daniels's bill mandated the expenditure of $500 million in fiscal 1975 for PSE and Congressman Esch's did not.

In their press releases introducing the bipartisan bill, Chairman Daniels and Congressman Esch continued the semantic debate over manpower revenue sharing. The Daniels release stated: "...the bill does not establish manpower revenue sharing which the Nixon administration has advocated. While these bills decentralize planning and operations of manpower programs to state and local governments, the federal government will retain the responsibility to assure that federal dollars are spent consistently with federal policy objectives." Esch's release said the bill intended to "reform federal job training programs and replace categorical grants with a

localized system aimed at reducing unemployment." Even in agreement and compromise, both sides had to point to different ends of the elephant or donkey, as the case may be.

Hearings were quickly scheduled on the bills, and on October 29 I appeared before the House Subcommittee to present the administration's views. I pointed to a number of minor problems that we had with the bill, but the major problems centered on the bill's definition of the federal role, and the continuing disagreement over the level of funding for public service employment in fiscal 1975.

The compromise bill still contained the strong federal role that the Democrats had insisted upon. While the White House was more concerned about the specifics of this role than we in the DOL were, we nevertheless continued to believe that some relaxation in the specific prescriptions should and could be obtained. We were certain, however, that the type of federal role that the White House desired was just not in the cards, the Democrats would never accept that kind of revenue sharing. In the hearings I stated that we found too many instances in which heavy burdens of fact finding and determination are required to be made by the Secretary of Labor, which would lead inevitably to the intrusion of federal staff into the local decision-making process. By taking a strong stand on this issue once again, we thought we would succeed in toning down the federal involvement.

With respect to the major disagreement over funding for public service employment for fiscal 1975, I repeated our well-known arguments against such a proposal, but agreed that we would leave it to the will of the Congress to resolve that issue.

Overall, after making a number of other suggestions for improvement, I said that my comments were intended to be constructive and that if those points were accommodated, I felt we were then within easy reach of full agreement on a comprehensive manpower bill. During the next week, we did succeed in obtaining a number of modifications in the bill that made it more acceptable. On November 8, the Subcommittee sent the bill to the full Committee and on November 21 the full committee reported out the bill.

The bill was brought up for debate on the floor of the House on November 28. In the course of the debate, Chairman Perkins provided perhaps the most succinct description of CETA, a description that remains valid today: "The compromise was to decentralize the planning and administration of manpower programs to state and local

governments, but to require a careful federal review and approval of the local plans to place squarely with the Secretary of Labor the responsibility for seeing that the conditions and special requirements of the law, as well as its general purpose, are in fact carried out." The outcome in the House was never in doubt, and the bill, including $500 million for public service employment in fiscal 1975, passed by a vote of 369-31.

On the evening of November 29, Bill Hewitt and I invited Chairman Daniels and Congressman Esch to join us at the Madison Hotel for cocktails, to celebrate what had been accomplished.

Final Passage and Signature

The Conference Committee had to resolve nearly 100 differences between the Senate and House bills, but most of the basic compromises had been agreed upon in shaping the House bill. The major unresolved issue going into the Conference was the funding for PSE in fiscal 1975. The House bill contained a provision for $500 million, and the Senate bill was silent. We in the administration were confident that we had obtained informal agreement from all that the fiscal 1975 figure would be held to the fiscal 1974 level of $250 million. The big surprise in the Conference was the proposal by Senator Javits and the agreement by the Conference to increase the agreed-upon $250 million to $350 million. (I have subsequently learned that there was much behind the scenes jockeying on this point. The AFL-CIO and its supporters were convinced that the administration was already so committed to the whole bill that the President would not veto the bill over the full $500 million. The Senate conferees, particularly Senators Nelson and Javits, believed that the $500 million was too risky. Consequently, the split-the-difference compromise of $350 million.)

It fell to my lot to inform the White House of the last-minute development. My news was met with rage and disbelief. Jim Cavanaugh threatened, in his anger, to recommend that the bill be vetoed: "We have been had for the last time!" "How dare they toy with the administration in this fashion!"

The $350 million figure was skating uncomfortably close to the limits of tolerance in an already suspicious and edgy White House. Although I was temporarily concerned that we might have lost the entire effort, I could not

believe that it would be credible for the President to now veto this bill after working so hard and achieving this long-sought compromise. The Conference Committee reported on December 18, and on December 20 both House and Senate adopted the Conference report and cleared the bill for the President.

By December 17, I was confident enough that the President would sign the bill to send a memo to Jim Cavanaugh recommending that the President hold a ceremony as he signed the bill. I suggested that the signing of the manpower bill be used as an occasion to call attention to the President's "new federalism" initiative and to further achievement of the objectives of revenue sharing. I noted that this first "special revenue sharing" bill can be pointed to as a model of a decentralized social services delivery system and that the votes in both the House and the Senate can be pointed to as indications that decentralizing federal power to state and local government was a sensible and popular concept whose time has come. I also suggested that the signing ceremony could be used by the President to emphasize the positive results of a close and cooperative relationship between Congress and the executive branch, since the manpower bill was the product of such a relationship.

On December 28, 1973, the President signed the Comprehensive Employment and Training Act into law, saying that he did so "with great pleasure, as it is one of the finest pieces of legislation to come to my desk this year." He went on to remark that this was the "first legislation to incorporate the essential principles of Special Revenue Sharing" and that "this long-overdue shift in intergovernmental responsibilities is now a reality in one key area of government domestic programs--manpower."

That day, Melvin Laird, Secretary Brennan, and I met with the press in the White House pressroom to explain and comment on the bill and answer questions. Secretary Brennan's prepared comments paid specific tribute "to those in the Congress who worked so actively and constructively to bring forth this important piece of legislation": Senators Nelson and Javits, Congressmen Daniels, Esch, and Quie, and Chairman Perkins.

He noted that the large bipartisan support usually accorded manpower legislation had eroded over the past several years, and that he was particularly pleased that the events of the past few months had apparently restored the spirit of constructive bipartisanship that had long characterized that area of public policy.

The Secretary then went on to comment on two specific concerns. First, he stated that the Comprehensive Employment and Training Act continued the strong emphasis of the last decade on serving the most economically disadvantaged and that the legislation should lay to rest any fears that the federal government was abandoning its commitment to serve the poor and disadvantaged. He stated that the Labor Department, in administering this legislation, would do all in its power to meet that commitment.

The Secretary next commented on the role of the federal government under this legislation. "Throughout the development of this law, fears had been expressed that in turning over responsibilities to state and local governments we, in the federal government, wished to 'put the money on the stump and run.' Such has never been our intent. However, we have continued to emphasize that decentralization must mean that, along with the responsibility must go a large grant of authority to the state and local governments for the planning and operation of the programs. We have continued to stress that this would call for the development of new methods by which the federal government carried out its responsibilities for oversight to insure that the intent of the law was being carried out.

"We in the administration believe that the Comprehensive Employment and Training Act strikes the appropriate balance between a new major role for states and cities and a necessary federal role in oversight and national administration."

Finally, he said: "Viewed from the context of a redefinition of the intergovernmental roles of the federal, state and local governments, I believe this legislation is indeed historic." So the Comprehensive Employment and Training Act became law.

The credit for coining the title, Comprehensive Employment and Training Act--CETA--goes to Dick Johnson of Senator Nelson's staff. The Senate bill had been titled, "Job Training and Community Services Act," and the House bill had been titled "The Comprehensive Manpower Act." Dick Johnson correctly concluded that the term "manpower" was destined to have some negative connotations and, therefore, changed the title of the bill to what I believe is a more descriptive set of words. (In fact, I subsequently convinced Secretary John Dunlop to change the name of the Manpower Administration to the Employment and Training Administration.)

What was the outcome on the crucial public policy issues that were involved in this reform effort?

First, on the issue of *decentralization*: a major decentralization was accomplished, but a strong federal role was also preserved. A major compromise was reached between the revenue sharing purists and the supporters of a total federal role, a compromise that Secretary Brennan characterized as "the appropriate balance."

Second, on the issue of *decategorization*: Title I of CETA (which sets up the basic manpower system) authorized a totally decategorized program; Title III added new categories for Indians and migrants and retained an emphasis on youth; and Title IV continued the Job Corps as a separate federal categorical responsibility. Again, a balance was struck between freeing state and local sponsors from rigidly defined categories and, at the same time, retaining program emphases for particularly disadvantaged groups.

Third, on the issue of *public service employment*: the strong proponents of public service employment succeeded, for the first time, in having a separate, identifiable program for public service employment included in a comprehensive bill. However, those wishing to provide curbs on public service employment succeeded in targeting the program to areas of high unemployment, in lowering the average wage cost, and in other ways trying to ensure that the program remained a transitional employment effort with the ultimate purpose of moving individuals toward private unsubsidized jobs.

As I stated at the beginning of this book, the legislative "game" has no inflexible criteria by which to judge the "winners" and the "losers." CETA is no exception. All the people intimately involved in the birth of CETA now believe that they were among the "winners"--and I am no exception. What a delight to play a "game" with all winners! Such is the art of legislative compromise.

II. EMBARGO, INFLATION, AND RECESSION

The 1974 Oil Embargo and Unemployment

The oil embargo by the Arab nations began in October 1973, and the effects were quickly felt throughout the nation's economy. The unemployment rate for the first full month of the crisis, November 1973, moved up 0.2 percent to 4.7 percent, although experts discounted the effects of the energy crisis on the rise. By December, however, the unemployment effects of the energy crisis were specifically being felt. The unemployment rate rose again by 0.2 percent to 4.9 percent, and an estimated 100,000 workers lost their jobs because of the oil embargo. The 0.4-percent increase in unemployment in January 1974, to 5.2 percent, underlined the spreading unemployment effects; an additional 150,000 people lost their jobs because of the energy crisis. The crisis was chiefly reflected in the automobile and automobile accessory manufacturing sectors, and states such as Michigan and Ohio had long lines at their unemployment insurance offices.

It was in the light of this potentially serious unemployment situation that Senator Henry Jackson (D-Washington), the chief architect of the proposed National Energy Emergency Act of 1973, had developed an unemployment insurance amendment (soon dubbed the "Jackson amendment"); it was added to the energy bill on the Senate floor in early December by a vote of 73-12. The amendment provided a program of supplemental unemployment insurance benefits of not less than six months or more than two years for "unemployment resulting from the administration and enforcement of this Act." It came to be known as the "causality" provision because the unemployment benefits provided for in the Act could only be paid to individuals whose unemployment was "directly as a result of the implementation"

of any of the Act's provisions. In other words, unemployment benefits could be paid to gas station attendants laid off because of short gas supplies but not to auto manufacturing workers, because slow car sales were only an indirect result of the oil embargo.

We were in the final stages of enacting CETA and launching the program in December 1973, and the Jackson amendment caught us by surprise. It had apparently been developed quietly by the AFL-CIO and given to Senator Jackson just prior to floor consideration of the bill. We were faced with a *fait accompli* in the Senate before we had a chance to understand the full implications of the legislation.

We quickly concluded that the "causality" provision was an administrative nightmare because it required a case-by-case finding as to the precise cause of unemployment. It would require thousands of unemployment insurance claims takers in 2,400 local offices to make hundreds of thousands of independent judgments on complicated economic situations; it seemed bound to creat chaos and introduce inequities into the unemployment insurance system.

There were other problems with the amendment. The six months to two years duration of benefits went well beyond anything available under regular unemployment insurance, thus providing special benefits for this group of "energy crisis unemployed." Also, while the regular unemployment insurance program was financed by specific employer taxes, thus providing a built-in policing mechanism, this program would be paid for by the general revenues of the federal government, with no incentives to the states for the tight administration of the program.

In retrospect, one provision of the amendment had an unexpected but permanent and major impact on federal unemployment insurance policy. The amendment provided that the unemployment assistance was to be available to individuals who were otherwise not eligible for regular unemployment compensation. Approximately 12,000,000 workers were, at that time, working at jobs that were not covered by the regular unemployment insurance laws. The amendment mandated almost "universal coverage" for the purposes of the National Emergency Energy Act. As is explained later in this paper, this concept of "universal coverage" became an important part of the entire anti-recession program of the unemployment insurance system.

Our preliminary soundings in Congress showed that the amendment had strong support and was moving very rapidly toward passage as part of the Act. Our first strategy was to try to derail it, but with the energy crisis deepening

and unemployment increasing rapidly, our success in stopping it seemed unlikely. A fallback strategy was needed, and we settled on trying to prepare and sell a more attractive and sensible alternative proposal.

We set out to design an alternative measure that would avoid the administrative problems inherent in the Jackson amendment but would be a positive, credible, and effective response to unemployment resulting from the energy crisis. Our proposal dispensed entirely with the concept of causality and instead substituted a supplemental unemployment insurance program available to all eligible unemployed if they lived in an area of very high unemployment that qualified for the program--the shorthand description became known as "triggering on" and "triggering off."

Internal work within the Department on our proposed alternative was completed by early January, and we began to meet and work intensively with Paul O'Neill of OMB and his staff on January 11. The week of January 11-18 saw a flurry of meetings and policy developments. By this time our alternative was pretty well agreed to, and on January 23 I accompanied Undersecretary Richard Schubert to the AFL-CIO to try and convince officials there of the serious administrative problems with the Jackson amendment and to convince them to shift their support to our alternative. Our work had progressed to the point at which the President's energy message the week of January 24 contained general words that indicated that the administration would be shortly submitting a proposal for a "special payments" system that would make general supplemental unemployment insurance payments available in areas of high unemployment because of "a number of energy-related factors."

During this period the energy bill was stalled in the Conference Committee, and we were beginning to have some influence on the Committee to alter the amendment. Early in February the Committee redrafted the amendment to cut the duration of eligibility from two years to one year and expanded the eligibility definition to cover unemployment due to "fuel allocations, fuel pricing or consumer buying decisions clearly influenced by the energy crisis." These alterations were clearly an improvement, but the basic "causality" problems still remained, and we continued to press for deletion of the amendment.

On February 13 Secretary Brennan transmitted to Congress our proposal to augment unemployment benefits, and he held a press conference on the subject. Our proposals were packaged as Title II of a bill providing for basic amendments to the regular unemployment insurance (UI) system, which

had been before the Congress since mid-1973. Our proposal was characterized as a temporary area-triggered program of additional unemployment benefits that would "trigger on" in areas of high unemployment and would not be restricted to those affected by the energy shortage. It provided for 13 additional weeks of benefits for those who had exhausted (used up) their regular benefits and 26 weeks of benefits for workers who were not covered by regular unemployment insurance. (Our preparation of this proposal had always included the Jackson amendment concept of covering all workers; with the "causality" approach deleted, our proposal extended coverage to both covered and not covered workers in areas of high unemployment.)

The Secretary made a particular point of stressing the expanded coverage. "This bill would make it unnecessary to enact any special legislation designed only to meet the problems of workers harmed by the energy shortage. It demonstrates this administration's concern for those who will lose their jobs and have great difficulty finding new jobs if unemployment reaches certain levels in the months ahead." The latter statement, in retrospect, had much greater importance than we attached to it at the time. The unemployment rate was then about 5.2 percent and Secretary Brennan, when pressed during the press conference, estimated that unemployment might rise to 5.5 or 6 percent by the end of 1974.

Meanwhile, Congress completed work on the energy bill late in February and sent it to the President for a predicted veto. In vetoing the bill, the President cited the "objectionable program for unemployment" as one important reason for his action.

"Under it, the Government would be saddled with the impossible task of determining whether the unemployment of each of the Nation's jobless workers is 'energy related.' In addition, eligibility for these benefits would not take into account the availability of jobs in the area." He went on to urge support for the administration's proposals to expand the regular UI system. "The correct answer to the problem of those who become temporarily unemployed for any reason, energy or otherwise, is to strengthen our regular unemployment insurance program, extend it to workers not now covered, and provide additional benefits to those who lose jobs in areas where high unemployment rates show that other jobs will be hard to find."

Senator Jackson tried to iron out the differences between Congress and the administration that had led to the

President's veto. However, in early April, failing to reach a compromise with the administration, he again reintroduced an energy bill that contained his amendment. It was one of four major provisions of the bill that the administration continued to find unsatisfactory.

Starting early in April, the administration's unemployment insurance alternative began to get some attention in the Congress. Undersecretary Schubert appeared before the House Ways and Means Committee on April 2, 1974, to discuss the proposal, and I appeared before the House Interstate and Foreign Commerce Committee on April 4. Although neither Committee showed any enthusiasm for our alternative, it gave us the opportunity to put before the Committees two important concepts: (1) as unemployment continued to rise, we needed a new general purpose program to take care of those who exhausted their regular 39 weeks of benefits because they were in high unemployment areas where jobs were hard to find; and (2) equity required a new program to cover those who were not a part of the unemployment insurance system but were nevertheless suffering equally because of the high levels of joblessness. On April 22, 1974, the Undersecretary appeared before the Senate Finance Committee in a hearing that was similar to those in the House. Without realizing it at the time, however, we were providing a crucial prebriefing to those Committees on important unemployment insurance concepts that were to become key parts of the nation's anti-recession program later in the year.

The oil embargo ended in April, and unemployment due to the energy crisis began to diminish, although general unemployment levels continued at previous levels. The ending of the embargo signaled a gradual loss of congressional interest in energy legislation, and the administration's alternative unemployment insurance bill never got beyond the hearing stage previously described. By mid-May the intense interest in energy-related legislation had subsided.

The foregoing events may seem to be a digression from the central theme of this paper, but, as will become clear later, the flap over the Jackson amendment was a key reason that both the administration and Congress could later act swiftly to enact an anti-recession program with a broadened unemployment insurance program as its kingpin. The Jackson amendment was a dress rehearsal for the coming main event.

A Counterinflationary Manpower Strategy

The oil embargo was, of course, followed by rapidly escalating fuel prices. And the ending of wage and price controls on April 30, 1974, set off a round of price "bulges" and collectively bargained "catchup" wage increases. At the same time, food prices had shown a steady rise. These factors resulted in a major inflationary spiral, which, by mid-summer, was being characterized by a new term--"double-digit inflation." During the period from March to September 1974, the consumer price index rose by 8.6 percent, and for the entire year, the overall rise was a whopping 15.7 percent.

Those responsible for managing the nation's economy began to realize that a major deflationary program must be undertaken. Since the necessary fiscal and monetary tightening seemed likely to result in increased unemployment, there was renewed interest in the role of a much larger public service employment program and other manpower measures to help counteract the expected unemployment effects of a deflationary program.

On May 1, 1974, Arthur Burns, Chairman of the Federal Reserve Board, sent an "eyes only" letter to the President suggesting an expanded public service employment program, set in the context of measures to control inflation. In the covering letter to the President, Dr. Burns suggested "an early return to a balanced budget" as "essential to assure the country that your administration is really serious in its fight against inflation."

The employment program Dr. Burns suggested called for an expenditure of an additional $4 billion, if the unemployment rate exceeded 6 percent, to provide 650,000 public service jobs. These jobs were to be of short duration and at a wage not to exceed $6,000. The program would be triggered on and off as rates of unemployment rose and fell. Dr. Burns estimated that, even with an allowance for "substitution effects"--state and local governments substituting federal funds to finance jobs that they would otherwise have financed from their own resources, thus resulting in no net new job creation--a $4 billion program could be expected to reduce the national unemployment rate by about 0.06 percent.

Inflationary pressures continued to grow in May, June, and July, although unemployment rates stayed at about 5.2 percent. While there was much discussion and concern about the surely developing problems, the nation and the federal

government were so absorbed with the final stages of Watergate that the policy development apparatus of the government was essentially paralyzed, and virtually nothing happened during those three months.

When Gerald Ford was sworn in as President on August 9, 1974, after President Nixon's resignation, he inherited a rapidly deteriorating economic situation, and events tumbled on top of each other in succeeding months as the government attempted to contain inflation and respond to high levels of unemployment. On Monday, August 12, I assembled a staff group, including Bill Hewitt and long-time associate, Robert T. Hall, to begin to prepare program options for a counterinflationary manpower program. President Ford was clearly going to put first priority on measures to get inflation under control, and we wanted to be ready with our program. Although we picked up signs of strong interest, mainly about public service employment, we decided that a wide range of employment and training programs should be considered for possible inclusion in a new policy package.

The following Monday our group met again to go over the product of a week's work. I realized we had gotten a little "ahead of the power curve" that day when I received a call from Edgar Fiedler, the Assistant Secretary for Economic Policy at the Treasury Department. He had been requested by Secretary William Simon to lead a small group from OMB and the Council of Economic Advisers (CEA) in examining the possibility of increasing the public service employment program. On Wednesday, we met with Fiedler and discussed not only PSE but the entire range of options that we had been considering and that we wanted Treasury officials and the President's other economic advisers to consider.

On Friday, August 23, 1974, I wrote a memorandum for Fiedler and the other participants summarizing our discussion. I stressed that I and others at DOL believed the basic issue was broader and more substantive than an expanded PSE program. I stated it would be desirable to examine and explore a range of manpower and related activities for an overall counterinflationary effort, including: some form of special transitional income maintenance; the targeted use of skill training and basic education as a form of "self-improvement employment" albeit at stipend wages; selected use of intensified job-search and placement assistance; other forms of work experience; and so on. I stated that public service employment would clearly play a major role in helping to combat any increasing

unemployment rising from counterinflationary initiatives, and, in response to questions at the meeting, reported that currently available funds could accommodate expansion of the PSE program from its current level of 73,000 to about 170,000 jobs. Finally, I noted that there were several substantive issues that would have to be addressed if a significant level of additional funds were to made available for PSE: (1) the absorption capacity of state/local government; (2) the displacement of regular employment; (3) the ability to target to affected areas; (4) the ability to target to affected groups; (5) trigger(s); (6) allocations and funding levels; (7) timing and phaseout; and (8) wage levels.

By August 29, 1974, we had prepared a final plan and transmitted it to the President and the White House early in September. The plan had seven major elements:

1. A new temporary unemployment assistance program to strengthen the basic workers' income protection system.
2. If the national unemployment rate reached 5.5 percent, funds currently available would be immediately obligated for public service employment; this would sustain a level of approximately 170,000 PSE jobs for one year.
3. If the national unemployment rate reached 6 percent, an additional $1 billion for manpower programs would be triggered in--public service employment and "self-improvement employment"; this would sustain more than 200,000 PSE jobs for one year (at an average of $5,000 per job).
4. If the national unemployment rate reached 6.5 percent, another $1 billion would be triggered in for expansion of such programs to support another 200,000 positions.
5. If the national unemployment rate reaches 7 percent, a final $2 billion would be triggered in; this would bring the PSE program to a total of $4 billion and 800,000 jobs.
6. All the additional funds triggered in would be targeted to areas where the unemployment is most severe by use of an area unemployment trigger of 6.5 percent as is done in the PSE program under Title II of CETA. (With a 6-percent national unemployment rate, an estimated two-thirds of the nation's unemployed would reside in such areas; with a 7-percent rate, more than four-fifths of all unemployed would be in such areas.)

7. As national or area unemployment receded below the indicated trigger levels, the added funds would be triggered off.

President Ford's first concrete action dealing with the economic slowdown was to announce on September 11, 1974, the immediate creation of 85,000 additional public service jobs, bringing the total to 170,000. The President had quickly picked up our first and most immediate recommendation. The President also promised to "develop contingency plans against the possibility that unemployment might give evidence of rising to substantially higher levels."

(Early in September the President had announced that he would hold an Economic Summit Conference at the White House to gather advice on the measures that should be taken to combat inflation and the slowing economy. Public service employment received strong support from many at the Conference on September 27-28, 1974. In his closing remarks to the Conference the President said that "productive work for those without jobs" would be part of his economic program. He also announced the creation of an Economic Policy Board to consolidate "all the federal government's economic efforts.")

By mid-September, we felt reasonably sure that an expanded manpower and PSE program would be part of the President's proposals to Congress, so we began speaking publicly on those proposals. The Secretary, during a television appearance on "Meet the Press," spoke of our $4 billion trigger proposal and our proposal for supplemental unemployment insurance. In a speech before a National Civil Service League conference on September 24, 1974, I spoke in some detail about the nature and size of our proposals.

Late in September, Dr. Burns once again reiterated his idea for a $4 billion PSE program and the Joint Economic Committee of the Congress released a report recommending an additional 650,000 PSE jobs, when the unemployment rate reached 6 percent. The importance of Dr. Burns's proposals should be emphasized. They received broad attention across the country because of his reputation as a key conservative economist and his powerful position as Chairman of the Federal Reserve Board. His proposals were considered by many as a major policy breakthrough that made PSE a much more "respectable" subject of attention as one of the measures in a counterinflationary or counterrecessionary economic strategy.

It was the Burns proposals that emboldened key congressional figures to begin to prepare new PSE programs. Also,

it began to become clear in late summer that the administration was likely to send a new set of manpower proposals to Congress, and there was an urge to get ahead of the administration and "beat it to the punch."

Congressman Daniels was the first to introduce a PSE expansion bill on September 11, 1974; by early October, he had already held three days of hearings on the bill. In late September and early October, first Congressman Esch and then Senators Nelson and Javits jointly introduced PSE bills.

By September 20 we had converted our proposals into draft bill form and were ready to move. During the next two weeks, the President's new Economic Policy Board at the White House was engaged in preparing the President's program to be presented to Congress the following week, but we in the Labor Department were not a party to these discussions: in the early days of the Economic Policy Board, neither the Secretary of Labor nor the Secretary of Commerce were members, though both were later added.

On Saturday morning, October 5, 1974, we met with Paul O'Neill in his OMB office to finally settle on the administration's manpower proposals. The President was scheduled to address a joint session of the Congress the following Tuesday, October 8, to present his economic proposals. O'Neill was serving as the spokesman for the Economic Policy Board, which was then in session in the White House during most of the day. At a number of points when questions arose, he either telephoned or walked across to the White House to consult with the Board.

The centerpiece of the President's manpower proposal was to be the unemployment insurance proposal we had developed in response to the Jackson amendment. Paul O'Neill and Alan Greenspan had been strong proponents of emphasizing the unemployment insurance piece of a manpower package, rather than the public service employment and related elements. The question of providing coverage for those not covered by the regular program had been hotly debated within the Economic Policy Board, and the President had personally settled the debate by choosing to provide coverage. The entire supplemental UI program was to be financed by general funds of the federal government rather than by the employer taxes that financed the regular UI program.

The PSE program accepted by the President was significantly different from what we had proposed. It was smaller, more circumscribed and targeted, with six major elements:

1. It was to be administered by CETA prime sponsors.
2. It was to be limited to 6-month projects, although they would be renewable.
3. Funding was to be based on graduated triggers: $500 million at 6 percent unemployment; another $750 million at 6.5 percent unemployment; and an additional $1 billion at 7 percent unemployment.
4. Eligibility for PSE was to be limited to experienced unemployed workers who had exhausted unemployment insurance benefits.
5. There was to be a $7,000 limit on wages.
6. As with the unemployment insurance program, the PSE program would come into effect only in areas that had an unemployment rate above 6.5 percent.

The major issue in the Economic Policy Board on PSE was the wage limitation. There had been much support to limit the wages to $6,000--the minimum wage level proposed by Dr. Burns. O'Neill and others had prevailed in raising the wage level to $7,000, which was still well below the $10,000-limit in effect under Title II of CETA.

As the legislative decisions took shape, we discussed the various ways of packaging the proposals so they would receive both maximum public visibility and also be positioned strategically to have the best chance of early congressional action. I suggested, and it was agreed, that the UI and PSE proposals be made Titles I and II of a single bill and that the bill be written so that it would be referred to the Labor Committees in both House and Senate. Unemployment insurance is normally handled by the Tax Committees of both houses (House Ways and Means Committee and Senate Finance Committee) since it usually involves tax matters; however, since our emergency UI proposals were to be financed by general revenues, it would be possible to bypass the Tax Committees. We had had such a difficult time getting the Tax Committees even interested in holding hearings on the UI proposals, including our alternative to the Jackson amendment, that I thought it would be wise strategy to get the entire emergency bill referred to the more sympathetic Labor Committees.

After deciding to name the package the "National Employment Assistance Act," we began to prepare the final legislation before the President's address to Congress on Tuesday evening, October 8, 1974. Because of the developing emergency nature of the situation and the expected impact of the President's speech, I determined to try to get both the Senate and House Committees to hold a joint

hearing on the President's proposals on Wednesday, October 9, the day after the President's address. Both Congressman Daniels and Senator Nelson agreed to hold the special extraordinary joint hearing we desired.

The hearing was held in the Senate Committee room and was chaired by Congressman Daniels. A full complement of members was present from both Committees. Although the Senators and Congressmen were conciliatory in their approach to the Secretary, there was universal criticism of the PSE portion of the bill. They told us that the PSE proposal was an "unrealistic approach" and would create only low-paying, "leaf-raking jobs." Congressman Esch was critical of the 6-percent trigger for funding, describing it as "artifical, contrived, and inequitable," and Congressman Daniels joined in this criticism. Esch was also critical of the 6.5-percent area trigger. The six-month project concept was attacked as being administratively unworkable, and the $7,000 wage limit was characterized as "poverty level." In short, the Committees were critical of almost every aspect of our bill--and we were not surprised.

The PSE bills authored by various members of the Committees authorized much larger sums of money; were not targeted to areas of high unemployment but generally provided funds to all prime sponsors; authorized salaries of $10,000-$12,000 rather than the $7,000 we were proposing; were not for limited-time projects but for general continuing activities; and were not targeted to those who had exhausted UI benefits but were open to all unemployed. Clearly, our PSE bill was very different from those that the committee members had prepared.

The UI title of our bill got little attention, even though we constantly highlighted it as the "first line of defense" against the impact of increasing unemployment. We particularly highlighted the fact that we were proposing to cover all workers, including the 12,000,000 people not then covered by UI. Of course, UI was strange to these labor committees, and we did not expect a lot of searching questions at this first hearing. I remained convinced that our ploy of getting the UI proposals before these committees would pay off in the long run.

Secretary Brennan, by his every word and action, made it clear to the Committees that, above all, the administration wanted a bill to emerge from Congress and that we wished to work closely with the Committees to develop legislation that would pass before Congress adjourned. The Secretary's offer was openly accepted as the hearing ended by Chairman Daniels, who noted that "the spirit of compromise is in this room." And within hours after the

hearing, Secretary Brennan telephoned both Congressman Daniels and Senator Nelson to re-emphasize his desire to work with the Committees in developing acceptable legislation.

Congress was scheduled to take an election recess from October 17 through November 18, 1974. Although several more days of hearings were held on the administration bill and other related bills before the Committees, the Congress recessed without having really given any public indication of whether legislation would or could be considered and passed in the short post-election session. Privately, however, Senators Nelson and Javits caucused and then jointly instructed their staffs to work out a bill during the election recess.

When Congress recessed in September, the unemployment rate stood at 5.8 percent, up 0.4 percentage points from August.

Developing a Game Plan

As Congress recessed, we took stock of the legislative situation and began to develop our plans to achieve passage of the legislation in the short post-election session. It was not an easy task: not only did we need major new authorizing legislation, but also billions in new appropriations in order to put the programs into operation. We were also well aware that the legislation would involve not only the Labor and Appropriations Committees in both houses, but also that the provisions were bound to cause jurisdictional frictions between the Ways and Means Committee, the Finance Committee, and the two Labor Committees. In all, at least six committees would inevitably be involved in the legislation. Only major national emergencies or overriding political imperatives had ever impelled the Congress to act very speedily. Would rising unemployment and the resulting political risk of inaction be enough to galvanize the Congress into action? We set out to make sure that we did all in our power to steer events toward passage.

We prepared a formal written "game plan" to guide all our actions over the next several months. The original author of the plan, Bill Langbehn, had facetiously put a cover sheet on the document formally entitling it "Game Plan" and just below had put a famous quotation from the Washington Redskins coach, George Allen: "Winning is everything and losing is nothing." Although it was a jest, we laid our plans with every intention of winning.

The plan started by analyzing where the legislative package stood in both houses and attempted to predict the actions of each house. Our analysis highlighted several key points:

1. The unemployment insurance piece of the package was not well understood and its key importance had been missed. We needed, therefore, to devote attention to public education on this feature and also make widely known that we would not decouple UI from PSE and allow only a PSE program to be enacted.
2. The easy and quick road for the Congress would be to pass a supplemental appropriation for PSE under Title II of CETA (which the Senate Committee staff thought the likely course); therefore, we must make known that the President expected action on his temporary PSE program, was against adding more funds to the existing permanent PSE program, and was likely to veto a supplemental appropriation.
3. Even with all our energies directed toward achieving new authorizing legislation, we thought that the outlook was dim--unless outside events spurred the Congress to action. We stated in the Game Plan that the key date in all of our actions must be the December 6 release of the November unemployment data: "if the rate...is very bad (6.2 percent or higher) Congress would probably act very rapidly and probably through the supplemental appropriations route."

The plan went on to detail the public information campaign that should be mounted; the congressional relations work; necessary meetings with labor and management groups to garner support; and work with the governors, mayors, and counties to develop support.

As a first step I called a press conference on October 28, 1974. Having in mind the specific topics that needed attention, I specifically indicated the President's strong desire for legislation and our willingness to compromise to achieve results. I stated that the President would veto any supplemental appropriation for Title II of CETA because he is "very aware of the difficulties of turning a long-term program off." I further indicated that we would not separate the UI and PSE titles of the bill in the hopes that Congress would pass a separate UI bill. I indicated that UI legislation had been before the Ways and Means and Finance Committees for two years and that all we had achieved was two days of perfunctory hearings. Therefore, we had consciously directed the UI title to the Labor

Committees hoping for favorable consideration and action. Finally, I predicted that the Democratic Congress would not delay on this crucial legislation in the face of the President's strong urgings and the rapidly rising rate of unemployment.

Carrying forward our Game Plan, we met with representatives of the governors, mayors, and counties on October 29 to try to gain their understanding and support for legislation. Although these groups preferred PSE approaches other than the administration bill, they strongly supported some new legislation. We stressed the particular significance of the UI provision, Title I, to state and local governments: the largest single group of employees still left out of the UI system were state and local employees, and our proposed bill would provide coverage for them, paid with federal funds. On October 29, I addressed the National Chamber of Commerce's unemployment compensation committee. I didn't expect to win their support for our emergency UI program--and I didn't--but it was another step in the process of public education.

On October 31 Bill Hewitt and I journeyed to Jersey City at the invitation of Congressman Daniels, to participate in an all-day session on CETA and how it was working in New Jersey. In the course of the day, we had an opportunity to spend some time privately with Daniels, and we discussed the upcoming session. I indicated to him again (by this time our relationship had matured so that it was one friend to another) our strong desire for legislation and our willingness to compromise. Although Daniels made no commitments, our talk helped to lay the groundwork for moving ahead as soon as the Congress returned.

On November 14, we met with Ken Young and Bob McGlotten of the AFL-CIO to again try to develop support for legislative action. They strongly supported our UI proposals. They had basic problems with our approach to PSE, but believed, as we did, that new legislation was necessary.

Several days later the Secretary and I met with Leonard Woodcock and Douglas Frazer of the United Auto Workers (UAW) for the same purpose. Many of the auto workers had been laid off since the energy crunch and were beginning to exhaust their unemployment insurance benefits. We surmised--correctly--that Woodcock and the UAW would give us strong support on the UI part of the bill.

On November 1 the unemployment rate had hit 6 percent, a rise from 5.8 percent the preceding month and up from 4.6 percent a year earlier. Fears of a major recession were rapidly replacing the early fall concerns with double-digit inflation.

Recession: Congress Responds in Twenty-Five Days

Congress returned on November 18 and the next day Undersecretary Schubert, Paul O'Neill, and I met with Representatives Quie, Esch, and Steiger to lay out our strategy and discuss grounds for compromise. On November 21 Chairman Daniels notified his Subcommittee that he intended to convene the Committee on November 26 to mark up his PSE bill. He was at the same time trying to decide what to do with Title I, the UI title, of the administration's bill. He could predict that Congressman Esch would be strongly pushing the administration's position and would insist that the UI provision be added to any PSE bill.

(Esch did, in fact, issue a press release on the day of the Subcommittee markup that indicated that he had written to a number of congressional and labor leaders urging them to "join in a bipartisan push for passage before the Christmas adjournment of legislation to provide a two-pronged attack on unemployment." He also said that he did not "care whether the Ways and Means Committee or the Labor Committee moves on increased unemployment compensation, but action certainly must come before Christmas. If Chairman Mills of the Ways and Means Committee is not going to push for this...program then our Labor Committee must assume the task. The unemployed in this country deserve more than partisan haggling and jurisdictional disputes.")

Also on November 21, the Secretary, the Undersecretary, and I once again went to Senator Javits's Capitol office to meet with him and Senators Nelson and Taft and their staffs to begin the process of compromise and negotiation. The meeting laid the groundwork for the staff work that followed.

On November 26, the House Subcommittee proceeded to mark up Chairman Daniels's PSE bill and left it mostly intact--and agreed to postpone the decision on whether to add the UI title to the bill until the full Committee markup. The Secretary and I met with Daniels in his office that day to go over the situation and again explore possible compromise. From the discussion with Senators Javits and Nelson, the markup actions of the House Subcommittee, and the discussion with Daniels, the general outlines of the PSE legislation began to emerge.

The administration had proposed that the new PSE program be authorized separately from CETA in order to highlight it as temporary in nature and countercyclical in

purpose--as opposed to the regular ongoing structural programs authorized in CETA. This proposal was unacceptable in Congress. There seemed to be a clear preference for authorizing the new program as a separate new title of CETA, although there was some sentiment for just adding funds to the existing Title II program. In any case, we had no problem in accepting a new title in CETA as a compromise.

There was no controversy over using the CETA prime sponsor system to administer any new PSE program, but the "project" concept had no support.

It was clear almost from the beginning of negotiations that Congress would have no part of triggers; neither to make more funds available as national unemployment levels increased nor to trigger on PSE funds in local areas of 6.5 percent unemployment. By this time we had been through enough formal hearings and informal discussions on triggers on this and other legislation to know how politically sensitive the subject was: triggers have a way of going on and off at unforeseen and sometimes embarrassing times. Political figures are typically fearful of entrusting basic program decisions to the operation of statistically controlled triggers. (In all, over my four years in office, we proposed area triggers five different times and only succeeded the first time in Title II of CETA.)

Congress seemed unwilling to approve a rigid eligibility criteria for the program. Rather than limiting eligibility to those who had exhausted unemployment insurance, as we had proposed, a much looser criteria began to emerge--such as "preference" or "preferred consideration" for the long-term unemployed. We held out on this point for some time, arguing that a specific "gate" should be constructed that would limit eligibility for the program. Without it we feared that there would be no way of differentiating between those most in need and all the unemployed. With something like 6,000,000 unemployed we argued that, at best, the PSE program could only reach a small percentage and that that small percentage should meet a needs criteria. Another way of constructing a gate would be to require that all potential new participants should have been unemployed a given length of time. Our proposal meant that, on the average, eligibility would be restricted to those who had been unemployed 15 weeks or more. Title II of CETA required an unemployment period of 30 days prior to entry in the program. We not only could not get support for our proposal, but Congress seemed interested in relaxing even the 30-day unemployment criteria in Title II. In fact,

the House bill required only 7 days of unemployment prior to entry into the program.

Another way to make PSE jobs short-term and countercyclical was to put a cap on wages. Thus, our proposed limit of $7,000 on annual wages was designed to ensure that these jobs did not become so "good" that they would draw workers from the private sector, that neither prime sponsors nor participants would be tempted to treat these jobs as long-term career jobs, and that the low wages would have the effects of both attracting only those who had no other alternatives and motivating them to seek private employment as soon as the economy improved. Again, it became clear very early that our proposal had little support. The $10,000 wage limit in Title II seemed to be as low as the Congress would consider, and the outside clientele groups were unanimously against our proposal.

Overall, it did look like the Congress was willing to agree with the general size of the program we had proposed--$2-2.5 billion. Finally, with respect to UI, there was a surprising amount of acceptance of and agreement to the administration's proposals. Congress seemed willing to accept our proposals without amendment. On our own list of priorities, the UI proposals remained of first importance. We were willing to compromise on PSE in order to gain acceptance of a package that included UI.

As this paper highlights, we early on realized that we would be unsuccessful in selling some of the basic elements of our PSE proposals. If we wanted new legislation, we would likely have to forget (a) targeting the program by area triggers, (b) setting rigid and specific eligibility criteria, (c) setting a rigid low-wage limit of $7,000 on PSE jobs, and (d) controlling the length of the program by limiting project duration. On the other hand, there was general receptivity to a new and separately authorized PSE program to be run by CETA prime sponsors, at a total cost recommended in the administration's proposal. As the balance of this paper portrays, these early indications, on both strategy and substance, were quite accurate and very consistent with the final outcome.

On December 3, 1974, Chairman Perkins got word from the House leadership that the Labor Committee should take immediate action on Congressman Daniels's PSE bill (HR16596) and that the Committee should also go ahead and handle the UI title. This move amounted to a decision by the leadership to take action on both PSE and UI before adjournment.

The following day, December 4, the full House Labor Committee proceeded with the markup of the Daniels bill

and added the UI title. To avoid a jurisdictional fight with the Ways and Means Committee, however, Perkins and Daniels subsequently worked out an agreement with Acting Chairman Ullman of Ways and Means whereby the Labor Committee bill would restrict its work on UI to workers never previously covered, and Mr. Ullman would introduce a bill to extend benefits for workers already covered by UI. Ullman subsequently did introduce such a bill (HR 16596) on December 10, and Daniels then deleted that section from his bill during floor debate.

The December 6 news that the November unemployment rate was 6.5 percent finally settled the question of whether the Congress would complete action on the new legislation in the short session. As our Game Plan had correctly predicted, this rise in unemployment galvanized Congress into action. The Democratic Congress could not politically risk inaction in this emergency situation when the new Republican President had taken the initiative of putting an emergency program before them for immediate action. Not only had the unemployment rate reached 6.5 percent, but it had jumped 0.5 percent in one month. It was the highest rate in 13 years, with 6,000,000 people out of work, and the November figures did not reflect the layoffs in the auto industry. It was generally assumed that this was only the beginning of a very rapid rise in unemployment and an extraordinarily serious situation. In any case, the legislation now became the absolutely "number one" priority on everyone's list, and for the remaining two weeks of the session the Congress acted with whirlwind speed.

The House Labor Committee reported out its bill on December 9, and it passed the full House on December 12 by a 322-53 vote. The Senate Labor Committee reported out its bill on December 11, and it passed the Senate, also on December 12, by a vote of 79-13. The Conference Committee filed its report on December 17 and both the House and the Senate adopted the Conference report on December 18 and cleared the bill for the President.

Meanwhile, Chairman Ullman's UI bill, extending benefits for an additional 13 weeks for those covered by the UI system, was reported out by the Ways and Means Committee on December 10 and passed by the full House on December 12. The bill was sent directly to the Senate floor and passed on December 16 with a minor amendment. The House accepted the Senate amendment on December 19, thus clearing that bill for the President.

A third action by Congress was necessary, however, before we could get the new programs under way: the new programs required billions in new funds. Early in December we had begun to prepare our estimates of funds necessary to implement the new PSE and UI programs. With the rapidly escalating unemployment situation, we had a difficult time estimating our needs for the ensuing months, particularly for unemployment benefits, since it was an open-ended entitlement program. By December 13, however, we had settled on a request for $5 billion and transmitted that request to OMB. On Saturday, December 14, we met with Paul O'Neill at OMB and agreed that $4 billion should cover us for the near-term future until we got a better fix on the rapidly developing situation. I was authorized to inform Chairman Daniel Flood of the House Appropriations Subcommittee on Labor and HEW that the President would be sending up a supplemental request for $4 billion and to ask for an immediate hearing on the request.

On Tuesday, December 17, the House Subcommittee held a hearing, and it was noteworthy in two respects: The President's official request for supplemental funds had not reached the Congress, and I doubt whether it did reach the Congress before the Congress took final action on the appropriation (as one who grew up in the Bureau of the Budget, I knew how extraordinary this was). Second, the Appropriations Committee's major concern was that the $4 billion request might not be enough.

On the next day, Wednesday, December 18, I appeared before the Senate to present and discuss our $4 billion request. On December 20 the Congress cleared for the President H. J. Res. 1180, appropriating $4 billion to fund the three new emergency programs. The Congress had accomplished the seemingly impossible: completing action on a $4-billion appropriation in four days!

Conclusion

On January 3, 1975, the December unemployment rate rose to 7.2 percent, 0.7 percentage points above the November level of 6.5 percent. It confirmed our fears: the country was in the grips of a major recession, which was still getting worse. We in the Department of Labor hadn't had to wait for the official figures: we knew that in the week of December 26 an unprecedented one million people had come into the UI offices across the nation to file initial claims for benefits. (By May 1975 the rate reached 9.2 percent,

far and away the highest unemployment rate since the great depression of the 1930s.)

On December 31 President Ford signed the Emergency Jobs and Unemployment Assistance Act (HR16596) and the Emergency Unemployment Compensation Act (HR17597). In his signing statement, the President commended "the 93rd Congress for its action on these two vital measures" and expressed "confidence that the spirit of cooperation and conciliation which marked their passage will carry over into the new year and the new Congress."

Both in terms of a scorecard and for reference later in this chronicle, how closely did the final laws resemble the proposals put forward by the administration?

The administration's unemployment insurance proposals, developed initially as a response to the Jackson amendment, were enacted with relatively minor changes. Up to 13 additional weeks of benefits were made available to those who were already covered, although the program was triggered on at a 4-percent (insured) unemployment rate nationally or in individual states, rather than on a national trigger of 6 percent or local triggers of 6.5 percent as we had proposed. Up to 26 weeks of benefits were made available for those not covered, providing universal coverage, precisely as we had proposed. Thus, we had achieved our central objective of putting in place a major and far-reaching broadening and extension of unemployment insurance, which would provide basic income support for millions of unemployed--while PSE was benefiting only thousands.

The new law authorized a new Title VI of CETA for PSE for one year, at $2.5 billion, to be administered by prime sponsors. We had failed, however, to shape the new program into an effective countercyclical device with safeguards against abuse and substitution and had perhaps sowed the seeds for future problems. Instead of the program's being targeted by triggers only to areas of high unemployment (as for Title II), it was available to all areas. Instead of being restrictive in eligibility, it was available to all unemployed who had been unemployed for 15 days (Title II required 30 days). Individual projects were not required, and the wage limit was $10,000, as in Title II.

At the time we were so caught up in the emergency nature of the unemployment situation that we could not and did not pause to reflect on legislative scorecards. Instead we were conscious of the good luck, hard work, and extensive cooperation between the executive and legislative branches of the government, which had succeeded in having ready

emergency measures to help the victims of the recession by the time the full effects of the recession were being felt. The whole experience left me impressed with the resilience of our governmental system in responding to emergency situations; I believe it also constitutes a telling argument for having such emergency measures available in a standby state so that they can automatically be implemented when needed.

III. SHORING UP OUR FIRST LINE OF DEFENSE

Improving Jobless Benefits

The unemployment rate for January took an even bigger jump than the December rise from 6.5 percent to 7.2 percent: a full percentage point to 8.2 percent. It remained at that rate for February but then took a heavy jump in March, to 8.7 percent. Between October and March 1975 the unemployment rate had risen from 6 percent to 8.7 percent, an increase of 2.7 million jobless workers in a 6-month period.

Historically, since its inception in the 1930s, the unemployment insurance program has been the nation's first line of defense against joblessness. Following the new temporary program that essentially achieved universal coverage of all experienced workers, the system became even more essentially the backbone of our efforts to cushion the effects of the recession. By early 1975, between two-thirds and three-fourths of the 8.5 million unemployed were receiving unemployment compensation.

Given this heavy reliance by millions of families on the UI system, we gave priority attention to the increasingly serious problem of exhaustion--workers who had used up all their eligibility for benefits. The economy was getting worse and jobs were not available. At the same time, the additional 13 weeks of benefits (for a maximum of 52 weeks) made available as of January 1, 1975, for those regularly covered by UI would run out by late March. In a memorandum to the President on February 24, 1975, Secretary Brennan had estimated that without a further extension of benefit duration an estimated 2.2 million workers would exhaust benefits in 1975 and had recommended Presidential action within 30-60 days.

Secretary Brennan left office shortly thereafter and the President appointed Dr. John Dunlop as the new Secretary of Labor. Secretary Dunlop was sworn into office on March 18 and immediately began concentrating on impending problems in the UI area. A distinguished professor at Harvard for many years, Dunlop had specialized in labor management and employment problems and was already well informed about the unemployment insurance system. He immediately understood the seriousness of the impending exhaustion problem and took personal charge of our efforts to develop a legislative proposal and get the President's endorsement.

Early in March Senator Javits became concerned about the exhaustion problem, particularly as it affected his state of New York. An estimated 150,000 workers in New York and an estimated additional 100,000 workers in other states would exhaust the full 52 weeks of benefits (including the additional 13 weeks authorized in December 1974) without being able to find work. Realizing the time limits of the situation, Senator Javits offered an amendment to the Tax Reduction Act of 1975 that had the effect of adding another 13 weeks of benefits for regular UI claimants (for a maximum of 65 weeks) with an expiration date of June 30. The amendment was easily adopted by the Senate and the Conference Committee. The President signed the Tax Reduction Act on March 29, 1975; thus, the first exhaustion "cliff" was narrowly missed for hundreds of thousands of workers.

Meanwhile, on March 20 Secretary Dunlop had dispatched a memo to the Economic Policy Board (he had been made a full member by President Ford) that essentially repeated what we had told the President in February--over 2.2 million exhaustees could be expected in 1975 with an estimated one million of them still in the labor force and unable to find work. The memo recommended that the programs be extended to provide an additional 13 weeks of benefits, that new "off triggers" be developed, and that the programs be extended to December 31, 1976. We estimated the additional costs of the recommendations to be $6.9 billion.

We had lost about 30 days in the process of gaining Presidential approval due to the shift from Secretary Brennan to Secretary Dunlop, but we were now back on the track. Fortunately, Senator Javits had intervened at a crucial time to save many families from going without income protection and provided the administration and the Congress with 13 weeks to fully consider appropriate next steps.

Secretary Dunlop succeeded in convincing the Economic Policy Board and the President of the necessity to move ahead with our recommendations. In an April 4 speech to the San Francisco Bay Area Council, President Ford announced that he would recommend to Congress: (1) that maximum benefits for covered workers be extended to 65 weeks; (2) that maximum benefits for the 12 million who had not previously been covered be extended from 26 to 39 weeks; (3) that both programs be continued until the end of 1976; and "in the expectation that the economy will show improvement before the year is out," (4) that the extended programs have a built-in procedure to reduce or terminate when the unemployment rate subsides to a specified level. For the next several weeks we worked with OMB and the Economic Policy Board primarily on the question of how to design that "built-in procedure": again we faced the question of triggers.

This was the third time around for us on the question of triggers relating to unemployment benefits. We had first proposed area triggers based on Standard Metropolitan Statistical Areas of 250,000 population or more as a part of our alternative to the Jackson amendment. We had next included the concept in our anti-recession PSE and UI proposals. Congress had not adopted the concept of area triggers in either case, but, on examining again the alternatives of using either national triggers or state-based triggers, we again settled on the area trigger concept and determined once again to try to sell it to Congress. Although our administration bill was not yet quite ready for submission to Congress, Secretary Dunlop, on April 22, 1975, appeared before the Unemployment Insurance Subcommittee of the Ways and Means Committee to discuss our proposals in general. On April 30 I appeared before the Subcommittee to discuss in detail the administration's bill (HR6504), which had been introduced by Congressmen Steiger, Frenzel, and Conable. The bulk of my testimony and the Committee's questions centered on the triggering concepts that we were proposing.

(It is interesting to note in passing that between December 1974 and April 1975 the House had worked out the jurisdictional question over UI so that the Ways and Means Committee again handled the entire package even though the benefits for those not a regular part of the UI system were paid for out of general funds of the Treasury. This was not true in the Senate. The Senate Labor Committee tenaciously hung on to jurisdiction over the program financed out of general revenues.)

On May 15 the Ways and Means Committee reported out a bill that included the extensions we had recommended but, not surprisingly, rejected the notion of any triggering-off of the program based on unemployment rates. Instead the Committee made the entire 65 weeks of the program for regularly covered workers available nationwide until June 30, 1976, and then cut the program to 52 weeks for the remaining six months. For the non-covered workers the program would remain at 39 weeks until June 30, 1976, and then drop to 26 weeks. The House, on May 21, passed the bill (HR6900) by a vote of 381-8.

On June 16 Secretary Dunlop appeared before the Senate Finance Committee to press for passage of the administration bill and stressed the need for the automatic area triggering-off concept embodied in the administration bill. On June 18 the Finance Committee reported out a bill that included the basic program extensions and also included a triggering concept, though one based on state triggers rather than labor market areas as we had recommended. Under the Committee bill people in states with a 6-percent unemployment rate or more would remain eligible for the full 65 weeks of benefits; people in states with less than 6 percent but more than 5 percent unemployment would be eligible for 52 weeks; and people in states with less than 5 percent unemployment would be eligible for only the regular 39 weeks. The full Senate approved the bill by a 70-3 vote on June 20.

During Conference sessions on June 25 and 26 the conferees agreed to the Senate's trigger concept and the Senate and House both adopted the Conference report and cleared the bill for the President on June 26. The President signed the bill into law on June 30, 1975, the day that the temporary extension expired. Once again, the administration and the Congress had succeeded in meeting an emergency situation, even though it took every day of the 13 weeks that were available.

The Eighteen Billion Dollar Year

A story about unemployment insurance benefits may seem out of place in a study that is primarily concerned with the nation's manpower programs and the role of those programs in meeting the needs of the victims of the recession. Yet I do not believe that the story of the federal response to the recession of the 1970s can be understood without treating both the manpower and the unemployment insurance

programs together as parts of a total response. By any measure, the unemployment insurance programs played a vital role in assisting the victims of recession, while the manpower programs, particularly PSE, played an important but a decidedly secondary role. It is important to stress this point because of the view one might get from the media's general treatment of this subject; PSE is a subject of intense interest, while the unemployment insurance system is only the subject of attention when blatant individual abuses are discovered.

From July 1975 to July 1976 the unemployment compensation system paid $18.2 billion in benefits. These benefits were paid by means of an estimated 225 million checks to about 14 million individuals, compared with an estimated $3 billion for PSE for 310,000 individuals.

IV. PUBLIC SERVICE JOBS-- THE MANPOWER BATTLEGROUND

First Session Frustration

As described above, our attention in the early months of 1975 was on ensuring that the unemployment insurance program continued to meet the needs of the unemployed. We were also overwhelmed by the task of implementing the major new emergency programs that the Congress had authorized and funded at the end of 1974. But the Labor Committees in the House and the Senate had not forgotten that the compromise PSE bill, Title VI of CETA, had carried an authorization of $2.5 billion for fiscal 1975 and nothing for 1976 and beyond. The supplemental appropriation bill enacted in December 1974 had included $875 million for PSE, so there was an additional $1.625 billion that could be appropriated under the authorization.

From the standpoint of the Democrats in the Congress, it was important to give early consideration to the future of the program beyond fiscal 1975. The compromise on a $2.5 billion program for fiscal 1975 had been considered by them as only a stopgap way of getting the program enacted. Their basic objective continued to be a PSE program of at least one million jobs, not the 310,000 that were now authorized and funded.

The President's budget for fiscal 1976, released in late January 1975, did not include a request to appropriate the balance of the fiscal 1975 authorization of $1.625 billion because the passage of the new Title VI program had come so late in the budget cycle that we had not been able to take it into account in preparing the budget. Even if we had, however, it is doubtful if we would have included the additional funding. The state and local government prime sponsors of PSE programs were already awash with funds, and we had felt it necessary to push them very

hard in January and February in order to get the new emergency PSE hiring completed rapidly. By March this problem was pretty well taken care of, but by that time the budget was public. The fact that the rest of the authorized PSE funds was not included in the budget was viewed by some Democrats in the Congress and by other supporters of PSE as another in a long chain of actions by the administration that indicated serious doubts about the program. In this particular case they were wrong; a neutral set of events had produced the result.

Early in February 1975 Chairman Daniels in the House and Senator Javits introduced bills to authorize funds to increase Title VI to one million jobs for fiscal 1976. Both bills reflected what was then believed to be the mood and will of the Congress--to go all-out on job-creating programs. This new 94th Congress reflected the heavy post-Watergate Democratic majority and was touted as being "veto-proof."

Early in March the President requested the balance of the Title VI authorization for 1975, at just about the same time as the House voted a 1975 supplemental job creation bill totaling $5.9 billion. The House bill did include the $1.625 billion for PSE, but the bulk of the funds were for public works. By mid-April the Senate had upped the total appropriation for job creation to over $6 billion--and the bill seemed headed for a sure veto. The Congress finally settled on a bill totalling $5.3 billion and sent it to the President on May 23.

By early May 1975 we had reassessed the PSE program and concluded that the program should not be expanded beyond the current 310,000-level. We, therefore, notified the prime sponsors that they should plan their individual PSE programs so that funds now available to them, plus the additional $1.625 billion in 1975 supplemental funds that would become available, would carry their program through fiscal 1976.

This action on our part primarily reflected the continuing doubts within the administration about PSE as a major countercyclical program. It was also occasioned by the President's very stiff policy of trying to limit federal expenditures as part of his anti-inflationary program. Finally, it reflected our developing concerns within the Department about the particular brand of PSE program represented by Title VI. We were well aware of the general substitution effects of PSE, but the type and size of the Title VI program seemed to have occasioned many instances of patronage, nepotism, lack of maintenance of effort, and

the particularly troublesome problem of how to treat the rehiring of regular laid-off local government employees.

In an appearance before Senator Nelson's Committee on June 6, 1975, I had an opportunity to put in the public record our reservations about the value of Title VI-type public service employment as a countercylical measure. I said that while public service employment may provide entry points for the disadvantaged into the world of work, there are limits to the use of this kind of public service employment as a job-creation measure in a serious and prolonged economic downturn. The programs are costly, temporary, something of a stopgap, and can employ only a limited fraction of the large number of unemployed persons. I said that in the past we have found public service jobs to be an effective means of providing employment in the short run and in expanding needed public services, but over time, in the face of a persistent recession, the value of public service employment as a device for the creation of new jobs diminishes because of the increased likelihood of federal funds being substituted for state and local funds. There was evidence from our earlier experience with the Emergency Employment Act that substantial substitution efefects take place by the end of the first year.

I also discussed the related issue of public sector layoffs: as many local governments have experienced declining tax revenues during the current recession, they are laying off regular employees; at the same time, many of these jurisdictions have CETA Title VI funds available to hire public service employees. Since maintenance-of-effort restrictions prohibit the hiring of public service employees for the jobs of those who have been laid off, and the jurisdiction may not use CETA funds to rehire the laid-off employees, the prime sponsors face enormous pressures. They are forced to lay off regular employees at the same time they are hiring new--public service--employees, even though they are being hired for different jobs. I said that to massively increase the number of PSE jobs at this time would only exacerbate this problem and recommended no additional funds for fiscal 1976.

In early June Chairman Daniels introduced a new Title VI bill that completely revised his February approach of simply increasing the authorization to provide for one million PSE jobs. The new bill removed major responsibility for public service employment from state and local prime sponsors and gave community groups and the federal government a much larger share in program operations. This approach apparently reflected Daniels's concern about

the problems of substitution, patronage, and nepotism. The growing abuses in the PSE program were beginning to give the entire concept a bad reputation, only six months after Title VI was passed.

On May 28, 1975, the President vetoed the $5.3 billion Emergency Employment Appropriation Act, and the House failed to override the veto. The vetoed bill had contained the $1.625 billion remaining for Title VI, so as of mid-June the balance of the authorized fiscal 1975 funds was still in limbo. After much twisting and turning in the Congress, the funds were finally made available on July 1 through a continuing resolution for fiscal 1976, which keeps federal programs operating when regular appropriation bills or authorization bills have not cleared the Congress.

Following the President's successful veto, the balance of the first session of the 94th Congress was taken up in a search for a veto-proof way of increasing the PSE program. By the end of the session Chairman Daniels, under strong pressure from state and local prime sponsors, had retreated from his second version of a new Title VI and was floating a third version, which kept the program with state and local prime sponsors (as had his first version). In the Senate both Senators Nelson and Javits were continuing their series of rewrites, also searching for a program that would pass and survive a veto. The session ended as it had begun--with everyone still searching for a formula by which to increase the PSE program. It had, indeed, been a frustrating first session.

And as the first session of the 94th Congress drew to a close, the unemployment figures seemed to be saying that the worst was past and that the economy was gradually improving. Unemployment had peaked in May at 9.2 percent; by November it was down to 8.3 percent.

The Title II Ploy

As it came time in September 1975 to prepare our budget request for fiscal 1977, our experience had led to total disillusionment with Title VI, for several reasons: First, the problems in defining maintenance of effort and controlling rehires of regular employees were practically out of control; even though the percentage of rehires in the total program never was more than 10 percent, in some cities it reached 50 percent or more and had succeeded in giving the program a "rip-off" reputation. Second, program

participants were typically non-disadvantaged, white, middle-class, and primarily high-school graduates, with a strong percentage of people with some college education. Third, the minimum 15-day period of unemployment prior to hiring had made it possible to put almost anyone on a PSE job. Fourth, problems of patronage, nepotism, and maladministration had cropped up in many of the big eastern cities and again had given the entire program an unsavory reputation. Fifth, because the Title VI formula spread the funds to every sponsor, even though the economy had recovered in some areas, these areas continued to receive PSE funds. In addition to our disillusionment with Title VI, the nationwide economy was improving, and we believed the need for any such program should be reconsidered. The Congress showed no signs of letting up on pushing the program to one million jobs--which we knew would cost $10 billion annually.

A comparative analysis of the incidence of Title II programs and of Title VI programs showed that there was almost complete congruence between the two programs. Even though Title II contained a 6.5-percent area trigger requirement, only a few areas in the country failed to meet the trigger requirement. It therefore occurred to us that seeking funds under Title II authority would cause very little dislocation in the total PSE program and would dispense with the need for Title VI. As we further considered the possibility of requesting all additional PSE funds under Title II, we liked the fact that Title II did have a trigger so that as the economy improved the program would be automatically phased down without the need for specific congressional action.

In addition, the funds made available at the beginning of 1975 were beginning to run low, and some sponsors were already having to terminate their PSE programs. A fiscal 1976 supplemental appropriation would be necessary or most sponsors would probably have to close down programs by late spring. Title II was the only live authorization that could be used to request funds, since the Congress had failed to act on Title VI. Finally, of most significance to OMB was the fact that a fiscal 1976 supplemental appropriation would keep between $1 and $2 billion out of the fiscal 1977 budget. The President had set a stringent budgetary goal for the fiscal 1977 budget, and appropriating these PSE funds in fiscal 1976 would make it easier to meet the goal.

All these considerations went into our decision to propose to OMB and the President that our strategy for

containing major increases in PSE, and working toward a reasonable and sensible phasing out of Title VI could all be accomplished through the route of a fiscal 1976 supplemental appropriation for Title II. The strategy was agreed to, and the President's fiscal 1977 budget carried a request for a $1.7 billion supplemental under the authority of CETA Title II that would carry the program of 310,000 jobs through calendar 1976 and then phase out the program by the end of the third quarter of 1977. In order to provide phasedown funds for the small number of sponsors who could not qualify under the 6.5-percent trigger, we requested that the Appropriations Committees provide us some flexibility in the use of discretionary funds.

No sooner had the President's 1977 budget proposal reached the Congress than Chairman Daniels, on January 22, 1976, introduced his fourth Title VI bill for the 94th Congress (HR11453). Only six days later the Committee reported out the bill, and on February 10 the House passed the bill, 239-154.

This version of the Title VI reauthorization emphasized many of the worst problems in the Title VI program. During the Committee markup Secretary Dunlop dispatched a letter to the Committee stating our principal objections: (1) not only was there no targeting on the disadvantaged, but the bill gave "preferred consideration" to the rehiring of public health and safety personnel, thus boldly sanctioning "rehires" as the highest priority; (2) even the 15-day period of unemployment prior to hiring for a PSE job had been dispensed with (there was no required period of unemployment); (3) the salary limit was $12,000 instead of the $7,000 we had continuously proposed; and (4) the program was being expanded to 600,000.

We were incredulous that such a bill was passed. It showed how far out of tune the House was with developing attitudes in the Senate, where it was becoming clear that targeting was an essential element of any new program. We were certain that the bill would not be considered in the Senate. We also took a look at the vote in the House and concluded that even if such a bill did ultimately pass in both houses, a Presidential veto could not be overridden.

During February and March we continued to watch closely the funding situation on the PSE program so that we knew which sponsors were in danger of running out of funds and when. Our urgent supplemental request was before the House Appropriations Committee and as the time wore on and no action was evident, we became increasingly concerned that,

in fact, Congress was going to fail to take any action before tens of thousands of PSE jobs ended.

Our natural allies during this period in trying to get supplemental funds should have been representatives of the prime sponsors. However, it was apparent that most sponsors had become beguiled by the "pot at the end of the rainbow"--by the belief that Congres was going to greatly expand the Title VI program. Consequently, they and their Washington representatives were spending all their time with the House Labor Committee in trying to find a way to get a big bill launched, rather than putting any pressure on the House Appropriations Committee.

We were aware during this period that the House Labor Committee had been trying to convince the Appropriations Committee to approve a fiscal 1976 supplemental sufficient to carry the program for only a limited period. This action would allow the time needed to pass a Title VI extension but would also prevent PSE layoffs. Our sources continued to tell us that the House Appropriations Committee was not enthusiastic about any supplemental appropriation, neither the one we had proposed or the smaller one being pushed by the House Labor Committee.

Toward the end of March we learned that Senator Nelson's committee would shortly meet to consider its rewrite of HR11453, the House-passed Title VI bill. We had not had a chance to be heard publicly on any of the Title VI bills, so we asked Senator Taft to insist on hearings before the markup. Senator Taft did so and Senator Nelson proceeded to schedule hearings. The Senate Committee had already radically altered the House bill by (a) restricting eligibility to the long-term unemployed, (b) requiring an income test for each participant, and (c) requiring that a project approach be applied to all new hires.

On March 31 the Senate Budget Committee surprised everyone by including only $2.2 billion in the 1977 Budget Resolution for a total PSE program, including both Titles II and VI, for only 265,000 jobs (the current total was 310,000). The Committee stated that the program should "concentrate on hiring low-income household heads now drawing unemployment insurance and other public benefits."

The impetus in the Senate toward tightening up the PSE program by targeting, income tests, and projects originated in the Senate Budget Committee. Senators Muskie, Bellman, Cranston, Mondale, and Kennedy saw well before it became apparent to others that the PSE program needed to be reformed and focused if it was to retain public support. I was somewhat aware of this developing attitude in the

Budget Committee through several luncheon conversations with Arnold Packer, the Committee's principal staff member, and a former colleague in OMB.

The action of the two Senate committees had now made clear to the House Labor Committee that the Senate was in serious disagreement with the House approach. On April 2 the House Labor Committee prepared and introduced its sixth PSE bill, "The Emergency Jobs Stopgap Extension Act" (HR12987), which was a simple authorization of appropriations for the ensuing few months, without any program changes or expansion. The full House Committee reported out the bill on April 8. The report didn't try to hide the Committee's frustration with the Senate: "It is the failure of the other body to consider this measure more expeditiously that has necessitated this emergency, stopgap legislation."

On April 5, I appeared before the Senate Committee, as requested by Senator Taft. Senator Taft was the only Senator present (Senator Nelson came in just at the end of the hearing and apologized for being late--his car had broken down). I used the opportunity of my appearance and my prepared statement to send a message to all concerned that the deadlock in the Congress on both authorization and appropriations was about to have serious disruptive consequences and that we were going to lay the blame on the Congress. I stated that although phaseout of the program is our goal, premature termination of these public service jobs would be unfair and inappropriate; thus, of most urgent concern to the Department of Labor was the request for immediate appropriations of $1.7 billion to prevent imminent layoffs in Title VI programs. I reported that based on program and funding projections, an estimated 12,000 PSE participants had been laid off through the end of March; in April some two dozen additional prime sponsors would be forced to lay off an additional 21,000 PSE employees; and in May, an estimated 31 additional prime sponsors would terminate an additional 63,000 workers. By mid-June we estimated a total of 80 prime sponsors will have been forced to lay off over 115,000 PSE participants, over 37 percent of all persons employed on Title II and Title VI PSE jobs.

I used most of my prepared statement to cover the funding situation, and only in the last paragraph of the statement did I address the legislation under consideration. I stated that since we failed to find convincing arguments for any additional legislation on PSE, I did not feel it appropriate to submit formal comments at this time on the specifics of the legislation.

The day before the hearing Jonathan Steinberg of Senator Cranston's staff had called and asked me how I would respond if a line of questioning were undertaken at the hearing related to my views on the Senate substitute bill, particularly the targeting and income test sections of the bill. I had told Steinberg that I would welcome such questions, but that I would be free to express only my personal views. I told him that the Senate bill was a step in the right direction and that I would so state, but I would be bound by the administration's overall opposition to any new Title VI legislation.

Senator Taft did pursue this line of questioning at the hearing, and I responded as I had indicated I would.

Senator Taft first asked for my comments on the eligibility requirements; those who have been receiving unemployment compensation for 13 or more weeks; those who are receiving AFDC; those who have exhausted unemployment compensation benefits; and those who are ineligible for unemployment compensation benefits but who have been unemployed for 13 or more weeks. I responded by saying that if we were writing on a clean slate, which we were not, I thought that the Subcommittee print was in the right direction. I reminded the Senator that the bill the administration presented to the Subcommittee a year and a half earlier tried to target public service employment programs on the long-term unemployed and for unemployment insurance exhaustees and similar groups, although that bill did not go as far as the Subcommittee print. I said I thought we would support the targeting of public service jobs in a much more precise way than they are now targeted under Title VI.

Senator Taft asked about those who are ineligible for unemployment compensation but who have been unemployed for 13 or more weeks and I said that, personally, I would support coverage for such individuals.

Later in the hearing Senator Taft turned to the question of an income test, noting that under the Committee's draft proposal an unemployed person otherwise eligible would nevertheless still be ineligible for a public service job if the income of other family members exceeded 70 percent of the lower living standard budget, which for an urban family of four persons would be $6,439. He asked if I had any comment on this provision and I replied that I believed the provision went in the right direction. I went on to say that the whole notion was to try to hold down the salary levels of these jobs, so that frankly, they were not good jobs. I noted that we were not creating

permanent jobs that were going to provide adequately for the income needs of families over a long period of time; they were supposed to be countercyclical jobs and therefore the wage levels should not be very high. I said that I preferred an overall salary of $6,000 or $6,500 because a needs test for public service jobs opens up a whole new set of public policy problems.

I tried by responses in the public hearing to send a first and very tentative message that the Senate was headed in the right direction and that the Senate bill might be the basis for some later compromise. At the same time, however, we were still totally involved in getting funding under Title II to continue the program.

We now began to work closely with the Senate Appropriations Committee staff in an effort to convince them to include the needed supplemental funds in the urgent supplemental bill that was now before the Committee. (The President had requested urgent funds for a major national immunization program to combat the projected swine flu outbreak; thus there was an emergency appropriations vehicle to which the PSE funds could be added.) The House had not added PSE funds, but we began to see signs that the Senate might. On April 7 our efforts met with success. The Senate Committee reported H. J. Res. 890, which added $1.2 billion in PSE supplemental funds and also included the necessary language to authorize us to use discretionary funds to prevent layoffs in non-Title II areas.

On April 8 I received a number of irate phone calls from Labor Committee staff members who were incensed that we had been successful in our efforts to get the Senate Appropriations Committee to add funds. They took the position that use of discretionary funds for non-Title II areas was clearly illegal and that we had pulled a fast one on Congress. I responded that the entire proposal had been a part of the President's budget in January, including the need for report language on the use of discretionary funds; that the solicitor of the Department of Labor had found it to be legal; and that we were delighted that we had finally gotten some action out of the Congress before massive layoffs began. Their real concern, of course, was that the provision of funds under Title II would blunt the need for and the steam behind any Title VI renewal.

During floor consideration the next day, April 9, Senator Javits took the lead in trying to make a record that the Appropriations Committee had overstepped its authority and that the action was illegal. There was an extended colloquy between Senators Magnuson, Javits, and Brooke, in which

Senator Magnuson essentially stood his ground and defended the action of the Appropriations Committee. Because of the emergency nature of the overall resolution, there was little opposition and the resolution passed handily.

By April 12 when the House took up H. J. Res. 890, the controversy had heated up considerably. House Democrats, led by Congressman Daniels, maintained that the use of Title II money for Title VI jobs was illegal. Daniels stated that such action by the Secretary of Labor was "absolutely illegal and improper" and that "if the Secretary undertakes what he proposed to do, there will be a lawsuit instituted against the Secretary and, in all probability, an injunction issued by the court which will tie up all the provisions under Title VI." For all the bitter denunciations and threats, however, the House passed H. J. Res. 890 by unanimous consent.

On April 15, 1976, the President signed the resolution and we proceeded immediately to allocate to prime sponsors all the regular funds available to them. The controversy had involved only the discretionary funds, but most of the appropriation was for regular Title II funds needed to keep the PSE program going.

In view of the heated accusations and threats that had been made in both the Senate and the House, I decided to withhold allocation of the discretionary funds pending a formal legal opinion from the Department's solicitor. By this time Congress had recessed, so we had time to regroup, get the opinion, and more carefully consider our next steps. In order to completely conclude the matter we decided to try to get a letter from Senator Magnuson reiterating the Senate Committee's desire that we proceed to carry out the intent of Committee report language and use discretionary funds in non-Title II areas. By the time Congress returned from its recess, I was able to make available to all concerned both a written opinion from the solicitor and the letter from Senator Magnuson. With these in hand, I felt comfortable in releasing the discretionary funds on April 29.

Our ploy had worked and just in time. Another month would have seen a major disruption in the PSE program.

Flirtation in the Senate

In January 1976, Secretary Dunlop had resigned (over a controversial veto by President Ford of a situs-picketing

bill) and in February, President Ford appointed W. J. (Bill) Usery as Secretary of Labor.

In my first meeting with Senator Usery, and on many occasions thereafter, he stressed to me the prime importance of finding a way to create more jobs. He continually stressed to all of us that he had made the President aware of his strong views on the matter and wanted us to help him prepare jobs programs that would be sensible and salable. He emphasized that he was willing to fight in the Economic Policy Board for his beliefs and that it was up to us to provide him with jobs proposals that would be acceptable.

We, of course, briefed him on what we believed to be the folly that particularly the House had been engaged in in the past year in attempts to expand Title VI and of our various strategies to contain the Congress. As February, March, and April wore on we made him aware that the Senate began to look like the place where we might be able to make some sensible compromises on Title VI.

While we were feeling particularly elated at the end of April because we had finally succeeded in obtaining the supplemental funds under Title II and had at least won the first round, the House on April 30 took up the "stopgap" bill (HR12987) providing for a simple extension of Title VI. We did not take this event very seriously because we thought we had the battle won; however, we asked Congressman Quie to take the position on the House floor that the bill was now unnecessary since funds had been made available under Title II. We thought surely that this would sway enough votes so that the vote for passage (which was certain) would show that there were not enough votes to override a veto. Through a series of oversights, however, even the Republicans were not told which way to vote, so the final vote was an overwhelming 287-42. Although, in the longer run, the vote was not that significant, it served that day to give renewed hope to those in the House who still believed in the ultimate passage of Title VI.

We had been keeping in close touch with the Senate Committee staff during April because the original Committee print had looked promising (as I had testified on April 5). On May 6 the Senate Subcommittee reported out its version of the House Title VI bill. The Senate bill was one we could clearly work with; it contained the targeting provisions, the income tests, and the one-year project provisions--all of which we thought were crucial to any desirable program.

On the same day the House and Senate Budget Committees reported out the Budget Resolution for fiscal 1977. While

the Senate Budget Resolution had held the PSE program to 250,000 jobs, the Joint Budget Resolution now provided for 500,000 PSE jobs. It looked like the Congress was gearing up for a major election year expansion of the PSE program.

That evening and the next morning, May 7, I mulled over the situation in the Senate. I weighed the following factors: (1) the Senate Committee action on Title VI extension was absolutely our last chance to shape any PSE legislation in Congress, since May 15 was the deadline under the congressional budget rules for any basic new authorizations to be reported out of a committee; (2) this was a Presidential election year, and another veto of a jobs bill should be avoided at all costs; (3) the Senate bill held out a possibility of achieving some major and necessary reforms in PSE; (4) Secretary Usery had given me strong instructions to get a "good" jobs bill, if that was possible; (5) the unemployment rate had leveled out at 7.5 percent so that we could no longer credibly argue that things were improving and that PSE was, therefore, no longer needed.

I called Secretary Usery early Friday morning, May 7, and by Friday noon I had his pledge to go to the Economic Policy Board to seek approval to work with the Senate Committee in fashioning a bill that we could support. I met with Deputy Undersecretary Perritt that afternoon to brief him on the situation. By that time he had made contact with the Board, and the matter had been placed on the agenda for early Monday morning. I called Bill Langbehn, chief of our legislative staff, and we discussed the substance of the points that should be put before the Board. I asked him to draft a paper over the weekend and to have it in the hands of the Secretary by 7:00 a.m. Monday. We were in constant communication over the two days as the paper took shape.

In the paper, we stated that Senate committee staff had indicated that the goal is a bill that can be accepted by the President and to avoid confrontation. We then listed the key concepts toward which we would negotiate:

- Targeting all jobs and funds above current program levels exclusively to long-term unemployed individuals.
- Targeting all jobs and funds above current program levels exclusively to projects-type PSE.
- Reaffirming the one-year time limit on CETA title VI projects and activities.
- Legislating, as a requirement rather than a goal, an average PSE of $7,800 (or less) while retaining the maximum federal contribution at $10,000.

- Giving the Secretary additional discretionary authority to modify allocations in order to target funds to areas with the greatest incidences of long-term unemployed and, assuming successful negotiations on our first two points, with the largest number of projects-type PSE.
- Requiring that at least 50 percent of projects PSE funds go to project applicants other than the prime sponsors (such as community-based organizations, local education agencies, special purpose political subdivisions, etc.)

We noted that in order to successfully negotiate and get a bill that could be signed, immediate action would be essential and clear signals of intent--and of limits--would have to be given to the Senate. The paper concluded by stating the bill would be reported out of the Senate Committee on Labor and Public Welfare on Wednesday, May 12--with or without our negotiations and that the bill would pass the Senate with ease.

I got a call from Secretary Usery late on Monday morning indicating that the Board had granted us a "hunting license" to work with the Senate Committee. I immediately dispatched Bill Hewitt and Bill Langbehn to work with the Senate Committee staff and by the next day, May 11, a revised bill had been drafted. On May 12 the Committee marked up the bill and approved it as presented by the staff. The bill as reported out by the Committee was very close to the general concepts we had outlined.

I now felt it was time to begin to talk publicly about the elements of a reasonable PSE program. I attended a conference of many leading manpower specialists at Arden House in New York May 20-23, and I tried to plant some seeds along the lines of the Senate bill--even though I knew it was high-risk behavior since the President had not decided to support the Senate bill.

On May 27 Secretary Usery sent a memo to the Economic Policy Board that explored all the various options for the President; he recommended that we continue quiet negotiations on the bill and not publicly oppose it. On June 4 Secretary Usery met with the President to try to convince him that the Senate bill was a responsible one and we should give it quiet support, but on June 9 OMB let it be known by letter to the minority leadership in both houses that the President had not changed his position and remained opposed to any extension of Title VI.

This action by the President disappointed but certainly did not surprise us. By that time the President was in a tight race for the Republican Presidential nomination with

Ronald Reagan and certainly didn't need the risk of supporting something as "liberal" as a public jobs bill. There was general consensus in Congress that the President's unwillingness to support the Senate bill reflected his "move to the right" to win the nomination. The strategy then became to slow down the bill so that the President wouldn't be finally asked to make up his mind on the bill until after the Republican convention in late August.

Although we hadn't made it all the way, our "flirtation" had achieved what we had initially desired: the Senate bill gave the basis for a PSE program that was a major improvement over the one currently in operation.

Post-Convention Success

On August 10 the Senate took up the Committee bill and passed it by a vote of 67-11 with very little change. The stage was now set for the conference, and the agreed-upon strategy was to schedule the conference after both the Republican Convention and the Labor Day recess.

We in the Department were taking the same attitude toward the Senate bill as those on the Hill. We realized that the program we were now operating under Title VI needed much improvement and that the Senate bill gave us the vehicle for obtaining such improvement. We continued to believe that there were enough votes in Congress to override a veto on a public jobs bill, particularly just before election. We also felt that the veto strategy was a politically dangerous course for the President. Finally, I knew from experience that in the legislative process there is no permanent and everlasting "yes" or "no"--outside events shape a great deal of the attitudes of the legislative actors. I felt sure that the President, as the Republican candidate for President, would change his mind.

Given these attitudes and beliefs, we set about immediately after the President's nomination to have his decision reconsidered first by the Economic Policy Board and then by him. On August 30 the Secretary received a confidential memorandum from L. William Seidman, the director of the Economic Policy Board, stating: "The President has approved expressing support for an extension of Title VI... at current levels as long as new employees are limited to the long-term unemployed." The President requested that the Secretary of Labor inform the Republican Congressmen participating in the conference "...that he will sign a bill extending Title VI at current levels as long as new

employees are limited to long-term unemployed." Our work was certainly cut out for us. The House bill had no targeting provisions whatsoever, and the House conferees were very much opposed to targeting--particularly going all the way so that all new PSE enrollees would be long-term unemployed.

The Conference Committee first met on August 31 and succeeded in resolving only a few minor differences in the two bills. The Committee then adjourned abruptly for the Labor Day recess as a direct result of a memorandum circulated by the American Federation of State, County, and Municipal Employees (AFSCME) that expressed "extreme dismay" about the hold-harmless provisions of the Senate bill. The issue was whether the hold-harmless provision applied to the 1976 job-slot level or to the persons employed under the current Title VI program. "AFSCME strongly opposes a policy requiring that as people presently employed under Title VI leave or are laid off, their job slots would shift over to the projects program and be filled only by persons meeting the individual eligibility requirements under that section."

The AFSCME memorandum portrayed well what was to be the major sticking point in conference. The Conference Committee met again on September 7 and immediately ran into a continuation of the heated disagreement on the targeting issue. The House conferees could accept the concept that any new PSE positions above the current level should be targeted and should be involved in one-year projects but they were absolutely adamant against changing the ground rules governing the current program. After extended and heated discussion, Senator Javits offered a compromise that called for 50 percent of the attrition in existing PSE jobs to go to the long-term unemployed and 50 percent to remain under the current Title VI requirements. We were distressed by this compromise because we had our marching orders from the President that all new employees should be from the long-term unemployed. The conference broke up without reaching agreement, and we went to work to try to rescue the bill from what we believed had been an undesirable compromise that had been offered too early.

On September 8 Undersecretary Michael Moscow, Deputy Undersecretary Kenneth Duberstein, and I met first with Chairman Daniels to try and sell him on getting closer to 100-percent targeting; then with Congressman Quie to try to get him to hold firm on the need for 100-percent targeting; and finally with Senator Javits to try to get him to withdraw his compromise bid and hold tight for the Senate approach.

During the day I also put in a call to Ken Young of the AFL-CIO, and that evening he called back from home and we had a long conversation. I wanted to sound him out on the conference situation and to try to sell him on supporting 100-percent targeting. I argued the social desirability of using PSE only for the most disadvantaged; I also argued that the state and local governments were now receiving new countercyclical revenue sharing funds that should go a long way toward providing adequate funds so that regular government employees would no longer need to be transferred over to Title VI PSE programs. Although Young generally agreed with the conceptual points I made, his position was that the countercyclical grant program was too new to be able to predict whether it would obviate the rehire question, and, until more experience had been gained, the AFL-CIO was not going to support giving up entirely reliance on the looser eligibility requirements of the current Title VI program. I was convinced from the conversation that Javits's 50-percent compromise was acceptable to the AFL-CIO, but that we were not likely to get any further concessions.

On September 9 the Conference Committee met again and agreed on the 50-percent compromise and all other points. On September 10 Secretary Usery sent a memo to the Economic Policy Board reporting on the conference action and giving the pros and cons on the President's signing the bill. Although the new targeting provisions covered all new job slots coming from any program expansion, only 50 percent of the existing slots were covered, instead of all new employees as the President wanted. In any case, we argued that the Congress would surely override a veto, so it became--as it was bound to--a political question to be decided in the light of a Presidential campaign.

On September 17 the House approved the conference report by an overwhelming 295-9 vote, and on September 22 the Senate approved it by a voice vote and sent it to the President.

The President had given no indication of what his action would be, but we felt confident that he would sign the bill. We proceeded to prepare a draft signing statement and urged that the President have a signing ceremony. Our draft signing statement was indicative of our feelings on how far we had come toward what we regarded as a sensible PSE program: "I am particularly pleased because this act contains many of the features that this Administration proposed to the Congress nearly two years ago. In early October 1974, I proposed the National Unemployment Assistance Act as a

counter-inflationary and counter-recessionary measure to assist the long-term unemployed worker. Like today's legislation, it targeted the program and called for the development of short-term jobs geared to specific community projects. While we failed to get that legislation two years ago, I am heartened that we have achieved those objectives today."

The President never issued that statement or any other statement on the bill, and certainly no signing ceremony was held--but the President did quietly sign the bill on October 1. Also in relative silence, the Congress passed a continuing resolution for fiscal 1977 that kept the program at its current size. Thus the two-year battle over Title VI ended with neither the administration nor the Congress feeling that enough of a victory had been won to do any public crowing.

In retrospect, this major overhaul of the public service employment program probably "saved" the program. The final vote in the House, 295-9, showed that targeting, income eligibility criteria, and a project approach changed the character of the program enough so that even most conservatives could support it. Having this revised PSE program on the books made it possible for the new administration, in February 1977, to quickly convince the Congress to double this Title VI PSE program, as the cornerstone of President Carter's "Economic Recovery Package."